

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

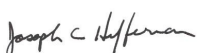
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

City of Rochester Hills, Michigan

Comprehensive Annual Financial Report with Supplemental Information for the Year Ended December 31, 2006

City of Rochester Hills, Michigan

Contents

Introductory Section

Letter of Transmittal	i-v
Organization Chart	vi
Certificate of Achievement	vii
List of Principal Officials	viii

Financial Section

Report Letter	1-2
Management's Discussion and Analysis	3-11
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13-14
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	15-16
Reconciliation of Fund Balances to Statement of Net Assets	17
Statement of Revenue, Expenditures, and Changes in Fund Balances	18-19
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Proprietary Funds:	
Statement of Net Assets	21
Statement of Revenue, Expenses, and Changes in Net Assets	22
Statement of Cash Flows	23-24
Fiduciary Funds - Statement of Assets and Liabilities	25
Component Units:	
Statement of Net Assets	26
Statement of Activities	27-28
Notes to Financial Statements	29-52

City of Rochester Hills, Michigan

Contents (Continued)

Required Supplemental Information

Budgetary Comparison Schedule - General Fund	53
Budgetary Comparison Schedule - Major Special Revenue Funds	54-57
Note to Required Supplemental Information	58

Other Supplemental Information

Nonmajor Governmental Funds:	
All Fund Types:	
Combining Balance Sheet	59
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	60
Nonmajor Special Revenue Funds:	
Description of Funds	61
Combining Balance Sheet	62-63
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	64-65
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Amended Budget and Actual	66-69
Nonmajor Debt Service Funds:	
Description of Funds	70
Combining Balance Sheet	71-72
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	73-74
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Amended Budget and Actual	75-79
Nonmajor Capital Projects Funds:	
Description of Funds	80
Combining Balance Sheet	81
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	82
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Amended Budget and Actual	83-84
Internal Service Funds:	
Description of Funds	85
Combining Statement of Net Assets	86
Combining Statement of Revenues, Expenses, and Changes in Net Assets	87
Combining Statement of Cash Flows	88-89

City of Rochester Hills, Michigan

Contents (Continued)

Other Supplemental Information (Continued)

Fiduciary Funds:	
Description of Funds	90
Combining Statement of Assets and Liabilities	91
Combining Statement of Changes in Assets and Liabilities	92

Statistical Section 93

Financial Trends 94

Net Assets by Component	95
Changes in Governmental Net Assets	96
Changes in Business-type Net Assets	97
Fund Balances of Governmental Funds	98
Changes in Fund Balances of Governmental Funds	99

Revenue Capacity 100

Taxable Value and Actual Value of Taxable Property	101
Direct and Overlapping Property Tax Rates	102-103
Principal Property Taxpayers	104
Property Tax Levies and Collections	105

Debt Capacity 106

Ratios of Outstanding Debt	107-108
Ratios of General Bonded Debt Outstanding	109
Direct and Overlapping Governmental Activities Debt	110
Legal Debt Margin	111-112
Pledged-revenue Coverage	113-114

Demographic and Economic Information 115

Housing Profile	116
Principal Employers	117
Construction Activity	118
Miscellaneous Demographics	119

Operating Information 120

Full-time Equivalent Government Employees	121
Operating Indicators by Function	122-123
Capital Asset Statistics	124-125
State-shared Revenue and Gas and Weight Tax	126

Introductory Section

April 26, 2007

To the City Council Members
and Residents
City of Rochester Hills, Michigan

We are pleased to submit the Comprehensive Annual Financial Report of the City of Rochester Hills (the "City") for the year ended December 31, 2006, in accordance with state law and the City Charter. This report was prepared by the accounting division and consists of management representation disclosing the City's financial condition to the elected officials, the residents, and other interested parties. Responsibility for the accuracy, completeness, and fairness of the financial data, including all disclosures, rests with the administration and management of the City of Rochester Hills. To the best of our knowledge and belief, the contents of this Comprehensive Annual Financial Report (CAFR) and the information presented are accurate in all material aspects, and are presented in a manner that fairly presents the financial position of the City.

In accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, generally accepted accounting principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a management's discussions and analysis (MD&A). This letter of transmittal is intended to be read in conjunction and complement the MD&A.

The Comprehensive Annual Financial Report is presented in three sections:

Introductory Section - The introductory section of the CAFR includes this transmittal letter, the City's organizational chart, a list of City administration, and the City's Certificate of Achievement for Excellence in Financial Reporting for the fiscal year ended December 31, 2005 from the Government Finance Officers Association of the United States and Canada.

Financial Section - The financial section includes the independent auditor's report, management's discussion and analysis, government-wide and fund financial statements, notes to the financial statements, required supplemental information, and other supplemental information, including individual fund statements and schedules for the City's nonmajor and fiduciary funds.

Statistical Section - The statistical section includes selected financial, tax, and demographic information that covers a period of 10 years.

Profile of Government - The City of Rochester Hills was incorporated in 1984 and operates under the mayoral-council form of government. The mayor and seven members of the City Council are elected to four-year staggered terms. Four of the council members are elected as district representatives and three members are elected as at-large representatives.

The approximate population of the City is over 69,000 and comprises an area of 32.2 square miles. The City employs approximately 230 full-time employees and 59 contracted law enforcement officers. The City provides a full range of municipal services for the public's health, safety, welfare, and quality of life. City services include general administration, fire protection, contracted police protection, planning and zoning, engineering, building and code enforcement, cemetery operations and maintenance, park operations and maintenance, street construction and maintenance, storm drain improvements, and pedestrian pathway maintenance.

Water and sewer operations, maintenance, and capital improvements are provided from user charges that ensure adequate coverage of operating expenses, capital replacements, and payments on outstanding debt.

Local Economy - The City of Rochester Hills is a desirable community and continues to attract new residents and businesses. The economic condition of the City is fiscally sound and stable. The City has one of the lowest tax rates compared to other communities in Oakland County. The future, however, is filled with economic uncertainty, challenges, and new opportunities.

Revenue projections continue to be challenging due to the reduction in the State of Michigan's state-shared revenue program. The City's state revenue sharing decreased by \$53,651, or less than 1 percent, from the prior year with a total decline since 2001 of over \$1.2 million, or 17.8 percent. Due to the decrease in state-shared revenue, the City continues to be challenged in maintaining current levels of operating expenses.

The local economic base of the City of Rochester Hills possesses a diversified property tax base where residential housing comprises 76 percent of the tax base, commercial 13 percent, industrial 6 percent, and personal property (business equipment, furniture, and machinery) 5 percent. No one taxpayer exceeds 1 percent of the tax roll and the top 10 payers combined account for less than 6 percent of the total. The following table illustrates the specific diversity of the City's tax base:

Single-family homes	18,479 homes
Condominiums	3,827 units
Low-income/senior citizen (11 buildings)	1,415 units
Rental apartments (18 complexes)	4,700 units
Mobile home parks (2 locations)	1,392 sites
Shopping centers	42 centers
Hotel/Motels (2 buildings)	236 rooms
Office space	145 buildings
Commercial	190 buildings
Light industrial	337 buildings

The principal source of revenue to fund the City's operations is property tax. The property tax revenues are a result of applying the millage rate set by City Council within the restrictions of state law to the taxable value of real and personal property located within the City. The tables below illustrate the diversity of the City's current tax base, including the LDFA district, which will be the basis for property tax revenue for the fiscal year 2006 budget:

<u>By Class</u>	<u>Taxable Value</u>	<u>Percent</u>
Real property	\$3,401,482,400	94%
Personal property	<u>200,536,560</u>	<u>6%</u>
Total	<u>\$3,602,018,960</u>	<u>100%</u>

<u>By Use</u>		
Residential	\$2,720,759,290	76%
Commercial	478,220,740	13%
Industrial	202,502,370	6%
Personal property	<u>200,536,560</u>	<u>5%</u>
Total	<u>\$3,602,018,960</u>	<u>100%</u>

Major Initiatives

Local Roads - Local roads continue to be a concern for the City. Due to the lack of funds and a local road program, the City will continue to address and work toward establishing a fund source for the needed local road projects. In 2006, concrete slab improvements began and there were no new local roads constructed.

Capital Improvement Plan - In accordance with State of Michigan Planning Act 285, the Rochester Hills Planning Commission adopts a Capital Improvement Plan (CIP). The CIP is an exceptional tool that benefits our community and is meant to consider the immediate and future needs and goals of the City of Rochester Hills. The plan incorporates external infrastructure projects to address drainage, major and local roads, parks, pathways, water and sewer infrastructure, and city-owned facilities. The plan also includes internal infrastructure projects necessary to continue government operations that deliver services to our residents, professional services needed for future planning, and projects that involve acquisition of new equipment.

The City of Rochester Hills Planning Commission adopted the 2007-2012 Capital Improvement Plan. Currently, the commission is reviewing the 2008-2013 plan for the 2008 budget process. Significant capital projects include:

- Drain extensions
- Pedestrian pathway rehabilitation and construction
- Major road construction
- Water and sewer extensions
- Park improvements and development

Long-term Financial Planning - The City will continue to improve and build upon its long-term process. In 1995, the City developed a five-year financial model that continues to be a valuable tool for the City. As part of the budgeting process, the fiscal division updates the long-range forecasts of revenue and expenditures. The forecasts serve as the framework for budgetary decision-making by clarifying financial parameters and available options. The model provides historical data, current financial capacity given existing City programs, and future financial capacity, given our long-range plans and objectives.

The City has adopted the following financial policies to guide the process for long-term financial planning and decision-making:

Debt Policy - Subject to applicable provisions of state statutes and the City Charter, the City Council, by ordinance or proper resolution, may authorize the borrowing of money for any purpose. The City's general obligation bonded debt issuances are subject to a legal limitation based on 10 percent of taxable value of real and personal property. In addition, under current state statutes, the City's special assessment bond debt issuances are subject to a legal limitation based on 12 percent of taxable value of real and personal property.

Investment Policy - Funds of the City will be invested in accordance with Michigan Public Act 239 of the Public Acts of 1988, as amended. The City has an investment policy that identifies the following objectives, procedures, and policies: safety of capital, liquidity, return on investment, protection of purchasing power, and maintaining the public's trust.

The City has a cash management system designed to invest temporarily idle funds in obligations of the U.S. government, certificates of deposits from banks and savings and loan associations, commercial paper, bankers' acceptances, and municipal investment pooled trusts, consistent with Public Act 20 as permitted by state law and the City's investment policy. All cash and investments are maintained in the City's name and insured when possible, and delivery versus payment is the preferred safekeeping technique. Collateralized cash and investments are of primary importance to the City. Under current state banking law, bank deposits are not permitted to be collateralized. The City exercises caution when making bank deposits above FDIC insurance levels.

Risk Management - The City is self-insured for comprehensive general liability, motor vehicle damage, comprehensive property damage, and public official liability through the Michigan Municipal Risk Management Authority (MMRMA). The City has aggregate excess reinsurance coverage for aggregate claims in excess of \$401,000 up to a maximum limit of \$15,000,000 per each occurrence.

The City participates in the Michigan Municipal League Workers' Compensation Fund for workers' compensation claims. The City is proactive in various risk control techniques to help control losses. These techniques include employee accident prevention training, defensive driving programs, and safety training programs.

Pension and Postemployment Benefits - The City provides pension benefits for substantially all full-time employees, members of the City Council, and paid on-call firefighters, through a defined contribution plan. Under a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings on contributions. The City makes monthly contributions to the plan and the plan is fully funded.

The City has established a retiree health benefit program, which is comprised of a health savings plan and a supplemental benefit. Full-time employees who have completed their probation period are eligible for the health benefit plan. The City contributes to the health savings plan on a monthly basis and the plan is fully funded. The expenditures for the postemployment health care costs for employees participating in the supplemental benefit plan are paid as the costs are incurred.

Awards - For each of the last 18 years (fiscal years 1988 through 2005, inclusive), the City of Rochester Hills, Oakland County, Michigan has received a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

The certificate of achievement is valid for a period of one year. We believe that our current Comprehensive Annual Financial Report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to GFOA.

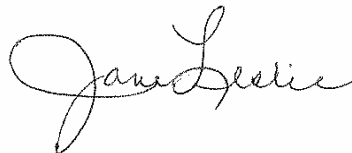
Acknowledgements - The preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated staff of the accounting division. Also, the cooperation and assistance of every department in the City have been invaluable. We thank all of them for their efforts.

We also express our sincere appreciation to the accounting firm of Plante & Moran, PLLC, who made a substantial contribution and assisted with the interpretation, guidance, review, and preparation of this document. Appreciation is also acknowledged to the City Council members for their ongoing interest and support in planning and conducting the financial operations of the City in a responsible manner.

Respectfully submitted,

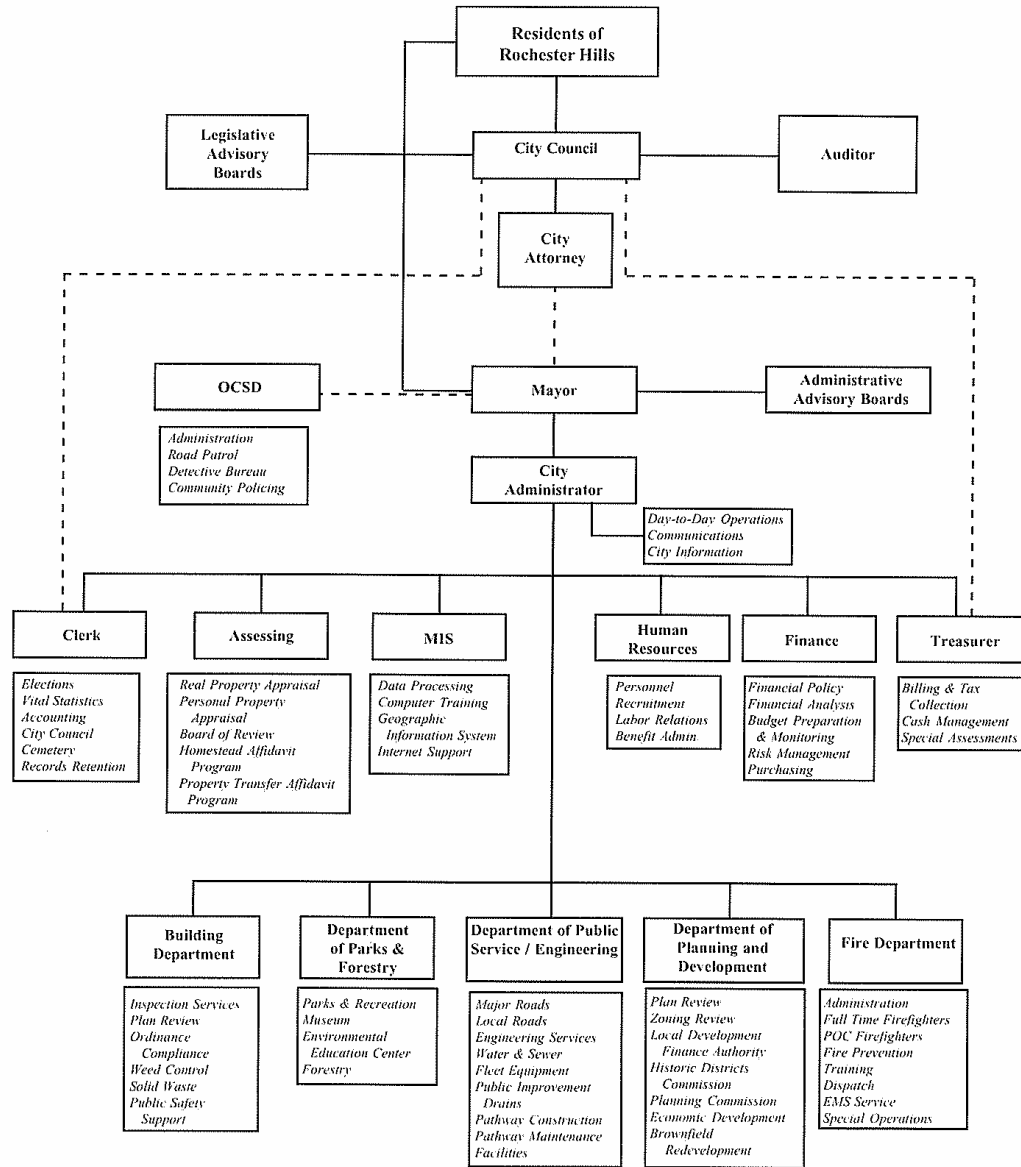


Pamela Lee
City Accountant



Jane Leslie
City Clerk

Functional City-Wide Organizational Chart



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Rochester Hills
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "Ronald J. Blum".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Enns".

Executive Director

**CITY OF ROCHESTER HILLS
OAKLAND COUNTY, MICHIGAN**

CITY ADMINISTRATION

ED ANZEK

DIRECTOR OF PLANNING

SCOTT COPE

DIRECTOR OF BUILDING

RONALD CROWELL

FIRE CHIEF

KURT DAWSON

DIRECTOR OF ASSESSING/CITY TREASURER

BOB GRACE

DIRECTOR OF MANAGEMENT INFORMATION SERVICES

MICHAEL HARTNER

DIRECTOR OF PARKS & FORESTRY

JULIE JENUWINE

FINANCE DIRECTOR

PAMELA M. LEE

DIRECTOR OF HUMAN RESOURCES

PAMELA S. LEE

CITY ACCOUNTANT

JANE LESLIE

CITY CLERK

ROGER ROUSSE

DIRECTOR OF PUBLIC SERVICES



Plante & Moran, PLLC

Suite 1A

111 E. Court St.

Flint, MI 48502

Tel: 810.767.5350

Fax: 810.767.8150

plantemoran.com

Independent Auditor's Report

To the Honorable Mayor
and Members of the City Council
City of Rochester Hills, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Rochester Hills, Michigan (the "City") as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Rochester Hills, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Rochester Hills, Michigan as of December 31, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

To the Honorable Mayor
and Members of the City Council
City of Rochester Hills, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rochester Hills, Michigan's basic financial statements. The management's discussion and analysis and the budgetary comparison schedules are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. The introductory section, other supplemental information, and statistical section are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The budgetary comparison schedules, combining balance sheets, and combining statements of revenue, expenditures, and changes in fund balance have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We have applied certain limited procedures to the management's discussion and analysis, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it. The introductory section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2007 on our consideration of the City of Rochester Hills, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants, and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

April 13, 2007

City of Rochester Hills, Michigan

Management's Discussion and Analysis

The City of Rochester Hills, Michigan's (the "City") management's discussion and analysis (MD&A) is a narrative overview of the City's financial activities and performance for the fiscal year ended December 31, 2006. Please read it in conjunction with the City's financial statements and notes to the financial statements.

Government-wide Statements

The MD&A is followed by the City's basic financial statements, which are comprised of two sections. The first two statements, entitled government-wide statement of net assets followed by the government-wide statement of activities, are financial statements that represent the City as a whole and provide a long-term perspective regarding the City's overall financial status. The statement of net assets includes all of the City's assets and liabilities as described in Notes 5 and 7, respectively, to the financial statements. The difference between the City's assets and liabilities is "net assets," which is a way to measure the financial health of the City as it fluctuates from one year to the next. The statement of activities reports all of the current year's earned revenue and accrued expenses, regardless of when cash is received or paid and represents the change in net assets from one year to the next.

The City's activities are separated into three categories: governmental and business-type activities, which represent the City's total financial performance, followed by the component unit financial information.

- The governmental activities column reports the City's basic services, including general administration, fire, police, department of public works, and parks and recreation.
- Business-type activities represent those activities for which the City charges fees to customers to cover the cost of services. The City's water and sewer system is the only business-type activity reported.
- The City has six discretely presented component units included in this report as follows: Local Development Finance Authority, Economic Development Corporation, Automation Alley SmartZone Authority, Brownfield Redevelopment Authority, Rochester-Avon Recreation Authority, and the Older Persons' Commission. Although legally separate, these component units are important because the City is financially accountable. Further information regarding the purpose of each component unit is found in Note I to the financial statements.

City of Rochester Hills, Michigan

Management's Discussion and Analysis (Continued)

Fund Financial Statements

The City's fund financial statements are similar to the historical presentation; however, this section individually discloses only those funds designated as the City's "major" funds. All nonmajor funds are aggregated into one column. These statements provide a higher level of detail than the government-wide statements and continue to illustrate how the services provided by the City were financed in the short term as well as what remains for future spending. The City has three types of funds that are used to keep track of specific sources of funding and spending for particular purposes as follows:

- **Governmental Funds** - The majority of the City's basic services included in the governmental funds not only focus on how cash and other financial assets that can readily be converted to cash flow in and out, but also what year-end balances are available to finance future City programs. Because this information does not include the additional long-term focus of the government-wide statements, reconciliation statements are provided to explain the differences between the two methods of reporting. Pages 16 and 19 illustrate this concept.
- **Proprietary Funds** - Services for which the City charges customers fees are reported in this fund type. This fund type provides both the short- and long-term financial information comparable to the business-type activity in the government-wide statements.

The City uses two types of proprietary funds. The Water and Sewer Fund is an Enterprise Fund, which typically charges residents usage fees and accounts for the cost of operations. The other proprietary fund type is Internal Service Funds, of which the City has four, which are used to report activities that provide services to other City funds and activities, typically covered by charges to other City departments. Individual financial statements are presented for each fund in the section entitled "other supplemental information." The activity of the Internal Service Funds is eliminated in the government-wide statements to avoid duplicate reporting of revenues and expenses.

- **Fiduciary Funds** - The City is responsible for ensuring the assets reported in these funds are used for their intended purpose. The City's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. Fiduciary activities are excluded from the City's government-wide statements because these assets are not available to finance City operations.

City of Rochester Hills, Michigan

Management's Discussion and Analysis (Continued)

Financial Analysis of the City as a Whole

Statement of Net Assets - The City's combined net assets increased 4.5 percent, or \$13.7 million, from \$296.7 million in 2005 to \$310.4 million in 2006. Of this increase, \$10.3 million, or 75.7 percent, is attributed to governmental activities. The primary increase is attributed to the governmental activities' restricted net assets of \$49.9 million, which increased by \$5.7 million, or 12.9 percent. Business-type net assets increased by \$3.4 million between 2005 and 2006 to \$125.6 million. The primary increase is attributed to the unrestricted net assets, which represents the amount that may be used for ongoing operations and maintenance.

The City's assets totaled \$407.5 million, up by \$12.0 million, an increase of approximately 3 percent from 2005. This relates primarily to amounts in current assets, reductions of restricted assets, and donated right of way and infrastructure in the governmental activities in 2006.

The City's total liabilities decreased \$1.7 million, or 1.7 percent, to \$97.1 million in 2006. This relates primarily to the reduction of bonded debt obligations in the governmental activities of \$5.3 million.

In condensed format, the table below shows the comparison of net assets (in millions) as of December 31, 2006 to the prior year:

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current assets	\$ 120.0	\$ 110.2	\$ 24.0	\$ 21.4	\$ 144.0	\$ 131.6
Long-term receivables	0.6	0.7	1.2	1.3	1.8	2.0
Restricted assets	0.2	1.0	1.9	3.8	2.1	4.8
Capital assets	154.2	154.9	105.4	102.2	259.6	257.1
Total assets	275.0	266.8	132.5	128.7	407.5	395.5
Liabilities						
Current liabilities	38.1	37.4	3.2	2.7	41.3	40.1
Long-term liabilities	52.1	54.9	3.7	3.8	55.8	58.7
Total liabilities	90.2	92.3	6.9	6.5	97.1	98.8
Net Assets						
Invested in capital assets -						
Net of related debt	114.3	110.7	103.7	102.2	218.0	212.9
Restricted	49.9	44.2	-	-	49.9	44.2
Unrestricted	20.6	19.6	21.9	20.0	42.5	39.6
Total net assets	<u>\$ 184.8</u>	<u>\$ 174.5</u>	<u>\$ 125.6</u>	<u>\$ 122.2</u>	<u>\$ 310.4</u>	<u>\$ 296.7</u>

City of Rochester Hills, Michigan

Management's Discussion and Analysis (Continued)

Changes in Net Assets - The City's total net assets increased by \$13.7 million during the fiscal year ended December 31, 2006. The table below shows the comparison of changes in net assets (in millions) to the prior year:

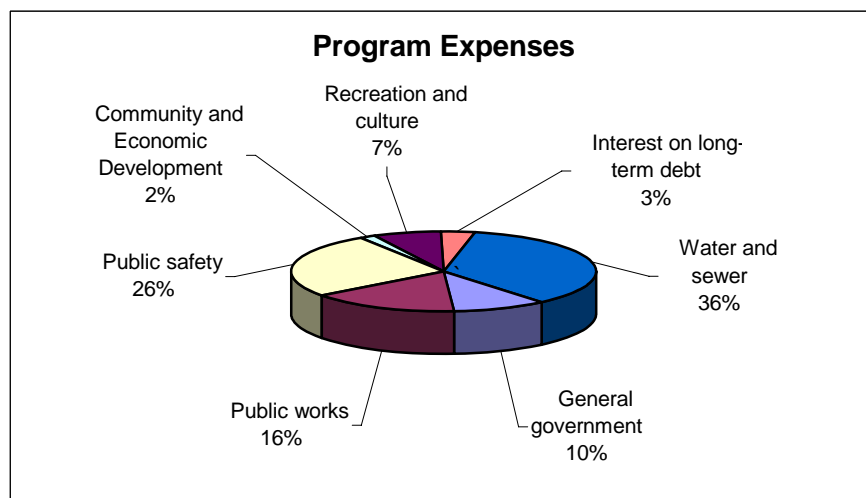
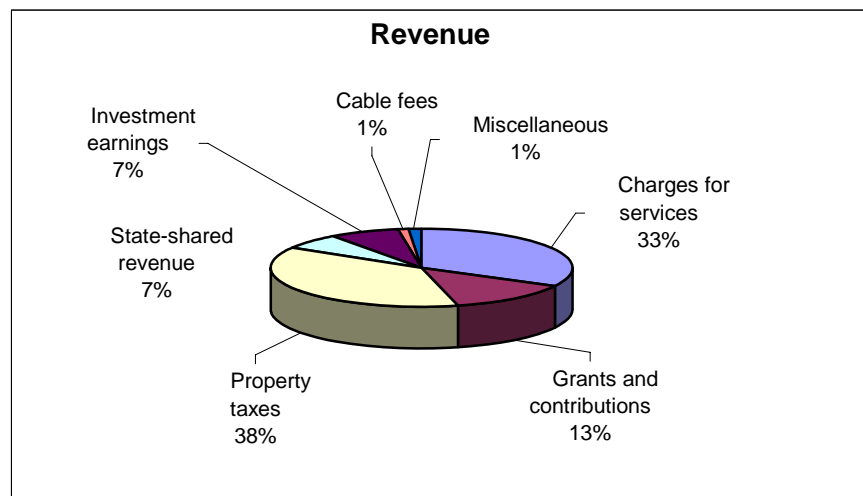
TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue						
Program revenue:						
Charges for services	\$ 4.8	\$ 5.2	\$ 21.3	\$ 20.6	\$ 26.1	\$ 25.8
Operating grants and contributions	4.7	4.5	-	-	4.7	4.5
Capital grants and contributions	2.5	6.2	3.8	3.8	6.3	10.0
General revenue:						
Property taxes	30.0	27.5	-	-	30.0	27.5
State-shared revenue	5.3	5.4	-	-	5.3	5.4
Investment earnings	4.9	2.6	0.9	0.5	5.8	3.1
Cable franchise fees	1.0	0.6	-	-	1.0	0.6
Miscellaneous	0.7	2.2	0.1	0.6	0.8	2.8
Total revenue	53.9	54.2	26.1	25.5	80.0	79.7
Program Expenses						
General government	6.3	4.7	-	-	6.3	4.7
Public works	10.1	10.1	-	-	10.1	10.1
Public safety	16.7	15.6	-	-	16.7	15.6
Community and economic development	1.2	1.3	-	-	1.2	1.3
Recreation and culture	4.7	4.5	-	-	4.7	4.5
Interest on long-term debt	2.2	2.4	-	-	2.2	2.4
Water and sewer	-	-	22.7	23.1	22.7	23.1
Total program expenses	41.2	38.6	22.7	23.1	63.9	61.7
Change in Net Assets Before Extraordinary Item	12.7	15.6	3.4	2.4	16.1	18.0
Extraordinary Item - Consent judgment	(2.4)	-	-	-	(2.4)	-
Change in Net Assets	10.3	15.6	3.4	2.4	13.7	18.0
Net Assets - Beginning of year	174.5	158.9	122.2	119.8	296.7	278.7
Net Assets - End of year	<u>\$ 184.8</u>	<u>\$ 174.5</u>	<u>\$ 125.6</u>	<u>\$ 122.2</u>	<u>\$ 310.4</u>	<u>\$ 296.7</u>

City of Rochester Hills, Michigan

Management's Discussion and Analysis (Continued)

The City's governmental activity revenue exceeded annual expenses by \$10.3 million, resulting in an increase in net assets as of December 31, 2006 to \$184.8 million. Business-type activity revenue exceeded annual expenses by \$3.4 million, resulting in an increase in net assets to \$125.6 million. The following graphs illustrate the primary sources of revenue and expenses for the total primary government of the City of Rochester Hills for the year ended December 31, 2006:



City of Rochester Hills, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities - Of the City's total revenue generated for fiscal year 2006, property tax comprises the largest segment, \$30.0 million. Property tax revenue increased over the prior year by \$2.5 million, or 8.7 percent. This increase relates primarily to a 5.8 percent increase in taxable value, while the overall millage rate increased slightly. Of the grants and contributions revenue, \$4.2 million is associated with the State of Michigan Act 51 revenues for the major and local road systems, while much of the remaining revenue is associated with the governmental activity related to road systems donated by developers in the amount of \$2.3 million. State-shared revenue is a large segment of the governmental activity, for which the City received \$5.3 million. An increase in investment earnings of \$2.3 million or 88.5 percent was due to increased interest rates on investments.

The majority of governmental expense is associated with the public safety function, which is \$16.7 million, or 40.6 percent of the total governmental activity. Public safety includes building, ordinance enforcement, fire, and police services. General government expenses total \$6.3 million, or 15.3 percent. Public works expenses totaled \$10.1 million, or 24.5 percent.

Business-type Activities - The City's business-type activities are recorded in the Water and Sewer Fund. The City provides water purchased from the City of Detroit to residents. Of the City's charges for service revenue, the majority is generated from charges passed on to residents, which is \$21.3 million. The charges for services are offset by water and sewer expenses of \$22.7 million, or 35.6 percent of the City's total expenses, and after capital contributions the business activity has a net change in assets of \$3.4 million.

Financial Analysis of the City's Funds - An analysis of the City's major funds follows the government-wide financial statements. The fund financial statements provide detailed information on the most significant funds, not the City as a whole. In addition to State legislative requirements to maintain separate funds for Act 51 major and local road money, the City creates funds to administer certain dedicated dollars and demonstrate accountability to the citizens for special tax millages voted by citizens and earmarked bond proceeds. The City's major funds for fiscal year 2006 include the General Fund, the Major Road Fund, the Local Road Fund, the Fire Fund, and the Special Police Protection Fund.

The General Fund's fund balance increased from \$11.9 million to \$13.5 million or a total increase of \$1.6 million. This is primarily due to an increase in investment earnings and a decrease in general government expenditures. The Major Road Fund's fund balance increased from \$16.8 million in 2005 to \$18.4 million in 2006 or a total increase of \$1.6 million. This increase is due primarily to the General Fund's transfer to the Major Road Fund in 2006 for future road improvements. The Capital Fire Fund's fund balance increased from \$5.9 million in 2005 to \$7.9 million in 2006 or \$2.0 million. The increase is a result of a transfer from the Fire Fund for future purchases of capital outlay to the Capital Fire Fund.

City of Rochester Hills, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights - The mayor and City administration continuously monitor budget performance and the City Council amends the budget to reflect current projections throughout the year. Overall, the General Fund departments were below budget. Revenues fell short by \$175,271 relative to the original budget, yet revenue exceeded actual expenditures by \$1,615,146. In other words, \$1,615,146 was contributed to the General Fund fund balance. Revenues declined mostly due to the prior year look-back for the Interfund-Administrative charge along with a decrease in license and permits - building and charges for service - planning and zoning fees. Interest income exceeded the budget by \$616,455 due to elevated interest rates and larger balances. State-shared revenue exceeded the original budget by \$174,917 but declined by \$99,148 from last year.

General Fund expenditures were \$1,813,284 below the original budget, mostly due to personnel vacancies, Interfund - MIS look-back, and the Interfund - Facilities look-back. Personnel costs were approximately 10 percent below the original budget. Operating supplies were approximately 20 percent below the original budget, and other services were 26.5 percent below the original budget.

These results are noteworthy especially taking into account the payment of Labor Union #2491 retroactive pay and benefits for 2006, due to the settled contract.

Capital Asset and Debt Administration - The City of Rochester Hills has \$259.7 million invested in a broad range of capital assets including land, building, technology equipment, fire equipment, water and sewer lines, and infrastructure for its governmental and business-type activities as of December 31, 2006. This reflects an increase in net capital assets of \$2.7 million during the year. Refer to Note 5 - Capital assets and Note 7 - Long-term debt for detail.

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 18.7	\$ 18.6	\$ 5.0	\$ 5.1	\$ 23.7	\$ 23.7
Right-of-way	42.8	41.6	-	-	42.8	41.6
Construction in progress	-	-	1.6	1.0	1.6	1.0
Infrastructure	61.0	61.6	96.3	93.9	157.3	155.5
Building and land improvements	25.8	26.8	0.5	0.5	26.3	27.3
Vehicles	3.1	3.5	-	-	3.1	3.5
Furniture and equipment	2.9	2.8	2.0	1.6	4.9	4.4
Total	<u>\$ 154.3</u>	<u>\$ 154.9</u>	<u>\$ 105.4</u>	<u>\$ 102.1</u>	<u>\$ 259.7</u>	<u>\$ 257.0</u>

City of Rochester Hills, Michigan

Management's Discussion and Analysis (Continued)

The City of Rochester Hills' debt rating is excellent. The City maintains an AA+ by Standard and Poor's. The City's bond indebtedness and contractual obligations totaled \$52.2 million at December 31, 2006.

City of Rochester Hills Outstanding Debt (in millions of dollars)

	Governmental Activities	
	2006	2005
Governmental activities:		
General obligation bonds	\$ 28.5	\$ 30.8
County contractual obligations	16.9	19.5
Special assessment bonds	3.1	3.5
Total governmental activities	<u>\$ 48.5</u>	<u>\$ 53.8</u>
Business-type activities - General obligation bonds	<u>\$ 3.7</u>	<u>\$ 3.8</u>

Economic Factors and New Year's Budget and Rates - The City's tax base is expected to continue to grow during 2007 by approximately \$125 million, or 3.5 percent. The City's millage rate has been constant for the past four years at 9.6681 mills, but increased to 9.7060 in December 2006 for fiscal year 2007 due to an increase in the R.A.R.A. millage from .1586 to .1950 mills. The City's total millage rate historically has been the third lowest among cities in Oakland County. Taxes account for 53 percent of budgeted governmental-type revenues and 49.3 percent of the budgeted General Fund revenues for the 2007 fiscal year. General Fund tax revenue is estimated at \$13 million.

The City's Local Road Fund continues to be depleted and it is anticipated that approximately \$1 million of fund balance for fiscal year 2007 will be utilized to balance the fund. The City Council and the administration are striving to develop an appropriate long-term funding solution to support local road capital improvements and daily operating activities. The 2007 Local Road Fund budget does include a local road rehabilitation project. The Major Road Fund anticipates approximately \$3.6 million of fund balance for fiscal year 2007 to be utilized for reconstruction, rehabilitation, and improvements to the major road system.

Capital projects for governmental-type funds for fiscal year 2007 include drain construction, pathway improvements, improvements to several fire stations and parks, development of a cemetery chapel, and the purchase of vehicles and equipment for fire and fleet activities.

The Water and Sewer Fund anticipates several water and sewer main projects, construction of a new DPS facility, continued implementation of a radio read system, and purchase of equipment.

City of Rochester Hills, Michigan

Management's Discussion and Analysis (Continued)

Contacting the City's Management - This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to the City of Rochester Hills, Accounting Division, 1000 Rochester Hills Drive, Rochester Hills, MI 48309.

City of Rochester Hills, Michigan

Statement of Net Assets December 31, 2006

	Primary Government			Component
	Governmental	Business-type	Total	Units
	Activities	Activities		
Assets				
Cash and cash equivalents (Note 3)	\$ 33,487,536	\$ 5,708,910	\$ 39,196,446	\$ 1,387,291
Investments (Note 3)	65,803,088	13,522,613	79,325,701	938,753
Receivables - Net:				
Property tax	17,370,727	-	17,370,727	-
Customers	389,289	4,416,469	4,805,758	205,520
Accrued interest	930,232	140,666	1,070,898	5,899
Due from other governmental units	1,640,131	-	1,640,131	1,085,633
Inventories	60,563	45,565	106,128	33,471
Long-term receivables	564,911	1,243,822	1,808,733	-
Other assets	279,211	-	279,211	-
Restricted assets (Note 8)	198,875	1,981,897	2,180,772	-
Nondepreciable capital assets (Note 5)	61,493,932	6,524,155	68,018,087	2,790,244
Depreciable capital assets - Net (Note 5)	92,772,473	98,924,242	191,696,715	13,974,532
Total assets	274,990,968	132,508,339	407,499,307	20,421,343
Liabilities				
Accounts payable	1,630,529	2,759,861	4,390,390	134,397
Retainage payable	43,329	59,320	102,649	-
Accrued and other liabilities	1,668,743	328,514	1,997,257	43,505
Deposits and escrows	2,914,941	64,376	2,979,317	-
Deferred revenue (Note 4)	31,894,141	-	31,894,141	1,281,436
Noncurrent liabilities (Note 7):				
Due within one year - Debt	4,696,018	150,000	4,846,018	-
Due in more than one year - Debt	43,807,935	3,550,000	47,357,935	-
Due within one year - Other noncurrent liabilities	3,237,346	-	3,237,346	29,350
Due in more than one year - Other noncurrent liabilities	340,334	-	340,334	5,267
Total liabilities	90,233,316	6,912,071	97,145,387	1,493,955
Net Assets				
Invested in capital assets - Net of related debt	114,283,971	103,730,294	218,014,265	16,764,776
Restricted:				
Streets and highways	21,361,973	-	21,361,973	-
Dedicated millages	8,968,119	-	8,968,119	-
Debt service	6,569,620	-	6,569,620	-
Capital projects	10,450,096	-	10,450,096	-
Cemetery	1,119,520	-	1,119,520	-
Tree preservation	1,441,848	-	1,441,848	-
Unrestricted	20,562,505	21,865,974	42,428,479	2,162,612
Total net assets	\$ 184,757,652	\$ 125,596,268	\$ 310,353,920	\$ 18,927,388

City of Rochester Hills, Michigan

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 6,299,416	\$ 171,991	\$ -	\$ -
Public works	10,138,213	360,254	4,412,402	2,446,574
Public safety	16,632,031	3,453,260	63,918	-
Community and economic development	1,153,060	204,898	189,630	-
Recreation and culture	4,744,567	604,141	55,181	3,790
Interest on long-term debt	2,231,178	-	-	-
Total governmental activities	41,198,465	4,794,544	4,721,131	2,450,364
Business-type activities:				
Sewer	10,013,957	8,956,330	-	3,388,913
Water	12,696,130	12,314,912	-	393,241
Total business-type activities	22,710,087	21,271,242	-	3,782,154
Total primary government	<u>\$ 63,908,552</u>	<u>\$ 26,065,786</u>	<u>\$ 4,721,131</u>	<u>\$ 6,232,518</u>
Component units:				
Local Development Finance Authority	\$ 1,338,354	\$ -	\$ -	\$ -
Automation Alley SmartZone Authority	95,299	-	-	-
Rochester-Avon Recreation Authority	1,936,058	1,298,157	-	-
Older Persons' Commission	4,476,311	1,269,024	1,135,322	-
Total component units	<u>\$ 7,846,022</u>	<u>\$ 2,567,181</u>	<u>\$ 1,135,322</u>	<u>\$ -</u>
General revenues:				
Property taxes				
Intergovernmental revenue				
State-shared revenues				
Unrestricted investment earnings				
Cable franchise fees				
Miscellaneous				
Gain on sale of capital assets				
Extraordinary item - Consent judgment payable				
Total general revenues and extraordinary item				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended December 31, 2006

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (6,127,425)	\$ -	\$ (6,127,425)	\$ -
(2,918,983)	-	(2,918,983)	-
(13,114,853)	-	(13,114,853)	-
(758,532)	-	(758,532)	-
(4,081,455)	-	(4,081,455)	-
(2,231,178)	-	(2,231,178)	-
(29,232,426)	-	(29,232,426)	-
-	2,331,286	2,331,286	-
-	12,023	12,023	-
-	2,343,309	2,343,309	-
(29,232,426)	2,343,309	(26,889,117)	-
-	-	-	(1,338,354)
-	-	-	(95,299)
-	-	-	(637,901)
-	-	-	(2,071,965)
-	-	-	(4,143,519)
29,985,752	-	29,985,752	890,428
-	-	-	2,289,075
5,341,983	-	5,341,983	-
4,900,644	972,934	5,873,578	183,365
968,467	-	968,467	-
619,505	86,073	705,578	14,972
87,108	542	87,650	-
(2,443,300)	-	(2,443,300)	-
39,460,159	1,059,549	40,519,708	3,377,840
10,227,733	3,402,858	13,630,591	(765,679)
174,529,919	122,193,410	296,723,329	19,693,067
\$ 184,757,652	\$ 125,596,268	\$ 310,353,920	\$ 18,927,388

City of Rochester Hills, Michigan

	General Fund	Major Road Fund	Local Road Fund	Fire Fund
Assets				
Cash and cash equivalents	\$ 7,390,847	\$ 2,929,523	\$ 1,884,354	\$ 3,244,979
Investments	14,587,111	14,808,960	921,161	998,161
Receivables:				
Property tax	7,245,285	-	-	3,502,773
State of Michigan	-	466,569	178,408	4,862
Oakland County	122,333	-	-	-
Accounts	302,845	11,492	24,076	12,797
Interest and other	236,761	271,942	1,520	14,831
Due from other funds	-	-	1,589	-
Inventories	-	-	60,563	-
Long-term receivables	-	-	163,685	-
Restricted assets - Assets held at County	-	-	-	-
Total assets	<u>\$ 29,885,182</u>	<u>\$ 18,488,486</u>	<u>\$ 3,235,356</u>	<u>\$ 7,778,403</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 137,869	\$ 40,085	\$ 90,808	\$ 17,678
Retainages payable	-	15,914	26,665	-
Accrued wages	137,277	6,803	10,266	132,518
Deposits and escrows	2,476,505	500	1,050	-
Due to other funds	-	1,589	-	-
Deferred revenue	13,251,856	-	166,881	6,397,764
Other liabilities	302,227	508	800	2,930
Total liabilities	16,305,734	65,399	296,470	6,550,890
Fund Balances				
Reserved for:				
Public improvement	-	-	60,563	-
Consent judgement	2,443,300	-	-	-
Unreserved, designated for supplement health	2,000,000	-	-	400,000
Unreserved, designated for budget stabilization	1,000,000	-	-	-
Unreserved, designated for subsequent year's budget, reported in:				
General Fund	19,070	-	-	-
Special Revenue Funds	-	3,659,080	1,052,690	76,610
Debt Service Funds	-	-	-	-
Capital Projects Funds	-	-	-	-
Unreserved/Undesignated, reported in:				
General Fund	8,117,078	-	-	-
Special Revenue Funds	-	14,764,007	1,825,633	750,903
Debt Service Funds	-	-	-	-
Capital Projects Funds	-	-	-	-
Total fund balances	<u>13,579,448</u>	<u>18,423,087</u>	<u>2,938,886</u>	<u>1,227,513</u>
Total liabilities and fund balances	<u>\$ 29,885,182</u>	<u>\$ 18,488,486</u>	<u>\$ 3,235,356</u>	<u>\$ 7,778,403</u>

City of Rochester Hills, Michigan

**Governmental Funds
Balance Sheet
December 31, 2006**

Special Police Protection Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 2,486,630	\$ 11,773,168	\$ 29,709,501
1,040,572	21,548,281	53,904,246
2,351,334	4,271,335	17,370,727
-	-	649,839
-	-	122,333
24,333	25,030	400,573
2,679	281,428	809,161
-	-	1,589
-	-	60,563
-	401,226	564,911
-	197,356	197,356
\$ 5,905,548	\$ 38,497,824	\$ 103,790,799

\$ 1,149,849	\$ 13,528	\$ 1,449,817
-	-	42,579
2,654	10,529	300,047
-	436,886	2,914,941
-	-	1,589
4,345,210	8,297,341	32,459,052
202	814	307,481
5,497,915	8,759,098	37,475,506

-	-	60,563
-	-	2,443,300
-	-	2,400,000
-	-	1,000,000
-	-	19,070
257,110	684,830	5,730,320
-	842,400	842,400
-	276,140	276,140
-	-	8,117,078
150,523	9,209,511	26,700,577
-	5,727,220	5,727,220
-	12,998,625	12,998,625
407,633	29,738,726	66,315,293
\$ 5,905,548	\$ 38,497,824	\$ 103,790,799

City of Rochester Hills, Michigan

Governmental Funds Reconciliation of Fund Balances to Statement of Net Assets December 31, 2006

Total Fund Balances for Governmental Funds	\$ 66,315,293
---	----------------------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	109,019,541
Special assessment receivables are expected to be collected over several years and are not available to pay current year expenditures	564,911
Certain other receivables are expected to be collected over several years and are not available to pay for current year expenditures	867,959
Accrued interest in governmental activities are not reported in the funds	(568,168)
Amortization of bond issuance costs are not reported in the funds	94,288
Compensated absences in governmental activities are not reported in the funds	(1,079,558)
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(44,873,953)
Extraordinary item - Consent judgment	(2,443,300)
Tax tribunal claims	(54,822)
Internal Service Funds are included as part of governmental activities	<u>56,915,461</u>

Net Assets of Government Activities	<u>\$ 184,757,652</u>
--	------------------------------

City of Rochester Hills, Michigan

	General Fund	Major Road Fund	Local Road Fund	Fire Fund
Revenue				
Property taxes	\$ 10,875,979	\$ -	\$ -	\$ 6,391,561
Licenses and permits	2,062,119	-	10,867	12,175
Intergovernmental:				
State grants	5,375,537	3,100,240	1,185,402	8,649
Federal grants	189,630	1,814	-	4,862
Other governmental revenues	-	-	40,000	-
Charges for services	4,598,910	225,623	39,044	1,099,552
Fines and forfeitures	138,260	-	-	10,668
Investment earnings	1,146,074	873,331	131,290	206,980
Special assessments	-	-	40,213	-
Refunds and other revenue	59,518	130,306	21,875	33,629
Total revenue	24,446,027	4,331,314	1,468,691	7,768,076
Expenditures				
Current:				
General government	6,747,880	-	-	-
Public works	735,931	-	-	-
Public safety	3,074,852	-	-	5,964,111
Community and economic development	1,144,244	-	-	-
Streets	-	1,558,588	1,735,528	-
Recreation and culture	3,031,349	-	-	-
Capital outlay	-	2,827,740	324,638	-
Debt service	-	-	-	-
Total expenditures	14,734,256	4,386,328	2,060,166	5,964,111
Excess of Revenue Over (Under) Expenditures	9,711,771	(55,014)	(591,475)	1,803,965
Other Financing Sources (Uses)				
Transfers in	40,015	1,672,391	1,717,480	-
Transfers out	(8,136,641)	-	(340,810)	(1,748,690)
Total other financing sources (uses)	(8,096,626)	1,672,391	1,376,670	(1,748,690)
Net Change in Fund Balance	1,615,145	1,617,377	785,195	55,275
Fund Balances - Beginning of year	11,964,303	16,805,710	2,153,691	1,172,238
Fund Balances - End of year	<u>\$ 13,579,448</u>	<u>\$ 18,423,087</u>	<u>\$ 2,938,886</u>	<u>\$ 1,227,513</u>

Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended December 31, 2006

Special Police Protection Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 4,102,393	\$ 8,615,819	\$ 29,985,752
-	-	2,085,161
30,364	20,043	9,720,235
-	-	196,306
231,548	-	271,548
134,658	267,478	6,365,265
297,315	-	446,243
152,063	1,493,321	4,003,059
-	62,977	103,190
79	122,715	368,122
4,948,420	10,582,353	53,544,881
-	-	6,747,880
-	1,562,753	2,298,684
7,560,476	-	16,599,439
-	-	1,144,244
-	-	3,294,116
-	1,660,391	4,691,740
-	357,647	3,510,025
-	6,364,577	6,364,577
7,560,476	9,945,368	44,650,705
(2,612,056)	636,985	8,894,176
2,648,400	4,130,410	10,208,696
(371,690)	(687,145)	(11,284,976)
2,276,710	3,443,265	(1,076,280)
(335,346)	4,080,250	7,817,896
742,979	25,658,476	58,497,397
<u>\$ 407,633</u>	<u>\$ 29,738,726</u>	<u>\$ 66,315,293</u>

City of Rochester Hills, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2006

Net Change in Fund Balances - Total Governmental Funds	\$ 7,817,896
---	---------------------

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	417,328
--	---------

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(103,190)
---	-----------

Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds	(33,554)
--	----------

Accrued interest payable is recorded when due in governmental funds; in addition, bond issuance costs are amortized during the life of the bond	32,434
---	--------

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	4,286,060
---	-----------

The change in accumulated employee sick and vacation pay, as well as estimated general liability and tax tribunal claims, are recorded when earned in the statement of activities	(2,523,427)
---	-------------

Internal Service Funds are also included as governmental activities	<u>334,186</u>
--	----------------

Change in Net Assets of Governmental Activities	<u>\$ 10,227,733</u>
--	-----------------------------

City of Rochester Hills, Michigan

Proprietary Funds Statement of Net Assets December 31, 2006

	Enterprise Fund - Water and Sewer Fund	Internal Service Funds
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,708,910	\$ 3,778,035
Investments	13,522,613	11,898,842
Receivables:		
Accounts	4,416,469	-
Accrued interest	140,666	121,071
Inventories	45,565	-
Prepaid costs and other assets	-	173,639
Total current assets	23,834,223	15,971,587
Noncurrent assets:		
Restricted assets - Assets held at the County	1,981,897	1,519
Capital assets - Net	105,448,397	45,246,864
Long-term receivable	1,243,822	-
Total assets	132,508,339	61,219,970
Liabilities		
Current liabilities:		
Accounts payable	2,759,861	180,712
Retainages payable	59,320	750
Accrued wages	39,484	25,926
Accrued vacation	165,963	109,574
Accrued annual leave	81,167	54,123
Deposits and escrows	64,376	-
Accrued and other liabilities	2,954	241,728
Payable related to capital lease obligations:		
Current portion of capital lease obligations	150,000	200,000
Accrued interest	38,946	61,696
Total current liabilities	3,362,071	874,509
Long-term Liabilities - Net of current portion	3,550,000	3,430,000
Total liabilities	6,912,071	4,304,509
Net Assets		
Invested in capital assets - Net of related debt	103,730,294	41,618,383
Unrestricted	21,865,974	15,297,078
Total net assets	\$ 125,596,268	\$ 56,915,461

City of Rochester Hills, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2006

	Enterprise Fund - Water and Sewer Fund	Internal Service Funds
Operating Revenue		
Charges for services	\$ 21,322,242	\$ 6,447,816
Other charges for services	35,073	64,329
Total operating revenue	21,357,315	6,512,145
Operating Expenses		
Cost of water produced/purchased	7,343,822	-
Cost of sewage treatment	5,112,044	-
Salaries and wages	3,289,221	1,999,967
Professional services	2,326,727	1,826,600
Public utilities	-	637,064
Material and supplies	314,306	164,501
Repairs and maintenance	75,768	733,613
Rentals	893,483	16,800
Depreciation and amortization	3,354,716	2,560,229
Total operating expenses	22,710,087	7,938,774
Operating Loss	(1,352,772)	(1,426,629)
Nonoperating Revenue (Expenses)		
Investment income	972,934	919,595
Net change in fair value of investments	-	11,908
Capital and lateral charges	999,985	-
Interest expense	-	(169,963)
Gain (loss) on disposal of capital assets	542	(77,005)
Total nonoperating revenue (expenses)	1,973,461	684,535
Income (Loss) - Before contributions and transfers	620,689	(742,094)
Capital Contributions	2,782,169	-
Transfers from Other Funds	-	1,076,280
Change in Net Assets	3,402,858	334,186
Net Assets - Beginning of year	122,193,410	56,581,275
Net Assets - End of year	<u>\$ 125,596,268</u>	<u>\$ 56,915,461</u>

City of Rochester Hills, Michigan

Proprietary Funds Statement of Cash Flows Year Ended December 31, 2006

	Enterprise - Water and Sewer	Internal Service Funds
Cash Flows from Operating Activities		
Cash received from customers	\$ 20,907,982	\$ 6,447,816
Cash payments for goods and services	(15,517,190)	(3,708,812)
Cash payments to employees	(3,296,938)	(1,974,485)
Other operating revenue	-	64,329
Net cash provided by operating activities	2,093,854	828,848
Cash Flows from Noncapital Financing Activities		
Transfers in from other funds	-	1,076,280
Repayment to other funds	10,694	28,532
Net cash provided by noncapital financing activities	10,694	1,104,812
Cash Flows from Capital and Related Financing Activities		
Payment for capital acquisitions	(2,900,323)	(1,662,930)
Proceeds from sale of capital assets	134,427	77,482
Collection of capital and lateral charges	999,985	-
Capital financing receipts	875,752	-
Principal payments	(100,000)	(200,000)
Interest paid	-	(131,595)
Net cash used in capital and related financing activities	(990,159)	(1,917,043)
Cash Flows from Investing Activities		
Purchase of investment securities	(29,861,552)	(28,096,708)
Proceeds from maturities of investment securities	26,382,771	25,889,537
Receipts of interest and dividends	824,554	774,708
Net cash used in investing activities	(2,654,227)	(1,432,463)
Net Decrease in Cash and Cash Equivalents	(1,539,838)	(1,415,846)
Cash and Cash Equivalents - January 1, 2006	7,248,748	5,193,881
Cash and Cash Equivalents - December 31, 2006	<u>\$ 5,708,910</u>	<u>\$ 3,778,035</u>

City of Rochester Hills, Michigan

Proprietary Funds Statement of Cash Flows (Continued) Year Ended December 31, 2006

	Enterprise - Water and Sewer	Internal Service Funds
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (1,352,772)	\$ (1,426,629)
Adjustments to reconcile operating loss to net cash from operating activities - Changes in assets and liabilities:		
Depreciation expense	3,354,716	2,560,229
Increase in accounts receivable	(449,333)	-
Decrease in other liabilities	(71,311)	(149,855)
Increase in inventories	26,052	-
Increase (decrease) in accounts payable and other accrued expenses	594,219	(154,897)
Decrease in accrued wages, vacation, and annual leave	(7,717)	-
	<u>3,446,626</u>	<u>2,255,477</u>
Total adjustments		
	<u>3,446,626</u>	<u>2,255,477</u>
Net cash provided by operating activities	<u><u>\$ 2,093,854</u></u>	<u><u>\$ 828,848</u></u>

Noncash Investing, Capital, and Financing Activities - During the year ended December 31, 2006, the Water and Sewer Fund received \$1,906,471 of lines donated by developers, and assets totaling \$2,041,842 were constructed by the County from amounts paid by City in prior years. Also in 2006, \$820,000 of bond proceeds held by the County on behalf of the Internal Service Funds was used to satisfy a portion of the City's capital project lease with the Oakland County Building Authority.

City of Rochester Hills, Michigan

Fiduciary Funds - Agency Funds Statement of Assets and Liabilities December 31, 2006

Assets - Cash and cash equivalents	\$ 7,074,635
Liabilities	
Accounts payable	\$ 38,848
Due to other governments	6,963,424
Accrued and other liabilities	<u>72,363</u>
 Total liabilities	 \$ 7,074,635

City of Rochester Hills, Michigan

Component Units Statement of Net Assets December 31, 2006

	Local Development Finance Authority	Economic Development Corporation	Automation Alley SmartZone Authority	Brownfield Redevelopment Authority	Rochester-Avon Recreation Authority	Older Persons' Commission	Total
Assets							
Cash and investments	\$ 1,209,453	\$ 2,691	\$ 2,011	\$ 30,362	\$ 832,663	\$ 248,864	\$ 2,326,044
Due from other governmental units	841,650	-	210,658	30,533	1,406	1,386	1,085,633
Receivables - Accrued interest and other	1,795	-	-	-	54,300	155,324	211,419
Inventories	-	-	-	-	33,471	-	33,471
Capital assets	-	-	-	-	32,242	16,732,534	16,764,776
Total assets	2,052,898	2,691	212,669	60,895	954,082	17,138,108	20,421,343
Liabilities							
Accounts payable	3,053	-	-	-	48,363	82,981	134,397
Accrued and other liabilities	-	-	-	-	13,087	30,418	43,505
Deferred revenue	841,650	-	210,659	30,534	170,348	28,245	1,281,436
Noncurrent liabilities:							
Due within one year	-	-	-	-	-	29,350	29,350
Due in more than one year	-	-	-	-	-	5,267	5,267
Total liabilities	844,703	-	210,659	30,534	231,798	176,261	1,493,955
Net Assets							
Invested in capital assets - Net of related debt	-	-	-	-	32,242	16,732,534	16,764,776
Unrestricted	1,208,195	2,691	2,010	30,361	690,042	229,313	2,162,612
Total net assets	\$ 1,208,195	\$ 2,691	\$ 2,010	\$ 30,361	\$ 722,284	\$ 16,961,847	\$ 18,927,388

City of Rochester Hills, Michigan

	Program Revenues		
	Expenses	Charges for Services	Operating Grants/Contributions
Local Development Finance Authority - Public service	\$ 1,338,354	\$ -	\$ -
Automation Alley SmartZone Authority - Public service	95,299	-	-
Rochester-Avon Recreation Authority - Recreation and culture	1,936,058	1,298,157	-
Older Persons' Commission - Recreation and culture	<u>4,476,311</u>	<u>1,269,024</u>	<u>1,135,322</u>
Total governmental activities	<u>\$ 7,846,022</u>	<u>\$ 2,567,181</u>	<u>\$ 1,135,322</u>
General revenues:			
Property taxes			
Intergovernmental revenue			
Unrestricted investment earnings			
Miscellaneous			
Total general revenues			
Change in Net Assets			
Net Assets - Beginning of year			
Net Assets - End of year			

Component Units
Statement of Activities
Year Ended December 31, 2006

Net (Expense) Revenue and Changes in Net Assets						
Local Development Finance Authority	Economic Development Corporation	Automation Alley SmartZone Authority	Brownfield Redevelopment Authority	Rochester-Avon Recreation Authority	Older Persons' Commission	Total
\$ (1,338,354)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,338,354)
-	-	(95,299)	-	-	-	(95,299)
-	-	-	-	(637,901)	-	(637,901)
-	-	-	-	-	(2,071,965)	(2,071,965)
(1,338,354)	-	(95,299)	-	(637,901)	(2,071,965)	(4,143,519)
764,747	-	96,514	29,167	-	-	890,428
-	-	-	-	617,272	1,671,803	2,289,075
105,100	157	795	1,194	48,262	27,857	183,365
-	-	-	-	2,804	12,168	14,972
869,847	157	97,309	30,361	668,338	1,711,828	3,377,840
(468,507)	157	2,010	30,361	30,437	(360,137)	(765,679)
1,676,702	2,534	-	-	691,847	17,321,984	19,693,067
\$ 1,208,195	\$ 2,691	\$ 2,010	\$ 30,361	\$ 722,284	\$ 16,961,847	\$ 18,927,388

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2006

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Rochester Hills, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Rochester Hills, Michigan:

Reporting Entity

The City of Rochester Hills, Michigan is a municipal corporation that is governed by an elected seven-member council. The City provides the following services as authorized by its charter: public safety (fire protection and contract police service), street maintenance, water and wastewater distribution, parks and recreation, public improvements, planning and zoning, and general administrative services. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Joint Ventures

The City is a member of the Paint Creek Trailways Commission, which was organized in 1981 for the purposes of owning, developing, maintaining, and otherwise operating certain nonmotorized public trails within the jurisdiction of the participating governmental organizations. The participating communities, which include Orion Township (14 percent), City of Rochester (8 percent), City of Rochester Hills (16 percent), and Oakland Township (62 percent), provide annual funding for its operations. During the current year, the City contributed approximately \$19,290 for its operations. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. The City does not have an equity interest in the joint venture. Complete financial statements for the Paint Creek Trailways Commission can be obtained from the administrative offices at 4393 Collins Road, Rochester, MI 48306.

Blended Component Units - The Rochester Hills Building Authority is governed by a five-member board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public facilities.

Note 1 - Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units - The following component units are reported within the component unit column in the government-wide financial statements. They are reported in a separate column to emphasize that they are legally separate from the City.

- a. The Local Development Finance Authority (LDFA) is governed by a 13-member board, of which seven members are appointed by the mayor and confirmed by the City Council while the other six members are appointed by the legislative bodies of other taxing authorities. The City of Rochester Hills, Michigan has the ability to impose its will upon the LDFA. The LDFA was created to provide a means for financing infrastructure improvements within a certain area of the City on behalf of the City and other entities. Its financial statements can be obtained from its administrative offices at 1000 Rochester Hills Drive, Rochester Hills, MI.
- b. The Economic Development Corporation (EDC) is governed by a 10-member board appointed by the mayor and confirmed by the City Council. The EDC was created to provide a means and method for encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City. The City of Rochester Hills, Michigan has the ability to impose its will upon the EDC. The EDC may issue industrial revenue bonds as a means of providing financing for certain enterprises. Its financial statements can be obtained from its administrative offices at 1000 Rochester Hills Drive, Rochester Hills, MI.
- c. The Rochester-Avon Recreation Authority (R.A.R.A.) was organized for the purpose of providing extensive and varied recreational programs for persons residing within the jurisdiction of the participating governmental organizations.

Along with the City of Rochester Hills, Michigan, which is an 87 percent member unit, the City of Rochester is also a member unit with a 13 percent interest. The governing body of R.A.R.A. consists of one City Council member and two Council-appointed persons from the City of Rochester Hills, one City Council member and one Council-appointed person from the City of Rochester, and three board-appointed persons each from the Rochester and Avondale school districts. There is a financial benefit/burden relationship between R.A.R.A. and the City of Rochester Hills. R.A.R.A.'s financial statements can be obtained from its administrative offices at 108 East Second Street, Rochester, MI.

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

- d. The Older Persons' Commission (O.P.C.) was organized in 1983 for the purpose of providing activities and services for older persons residing within the jurisdiction of the participating governmental organizations. Along with the City of Rochester Hills, Michigan, which is a 67 percent participating member, Oakland Township (19 percent) and the City of Rochester (14 percent) are also member units of the O.P.C.

The governing body of the O.P.C. consists of two City Council members and two Council-appointed older persons from the City of Rochester Hills, one City Council member, and one Council-appointed older person from the City of Rochester, and one board member and one board-appointed older person from Oakland Township. There is a financial benefit/burden relationship between O.P.C. and the City of Rochester Hills. O.P.C.'s financial statements can be obtained from its administrative offices at 650 Letica Dr., Rochester, MI.

- e. The Brownfield Redevelopment Authority (the "Brownfield Authority") was created, pursuant to Public Act 381 of 1996, to promote revitalization of environmentally distressed areas within the 32.2 square mile boundary of the City. The Brownfield Redevelopment Authority is governed by a seven-member board that is appointed by the mayor and confirmed by the City Council. The Authority's financial statements can be obtained from its administrative offices at 1000 Rochester Hills Drive, Rochester Hills, MI.
- f. The SmartZone Authority was created to foster new economic growth and development by establishing clusters of technology companies. The program also seeks to develop relationships between these businesses and universities by providing businesses resources and accessibility to university facilities for the purpose of commercializing research. The SmartZone is governed by a 13-member board, which is appointed by the mayor and confirmed by the City Council. The City of Rochester Hills has the ability to impose its will upon the SmartZone.

Note 1 - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue. The cable franchise fees are reported as general revenue because they are not generated from any program of the government, and are unrestricted as to use.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

- a. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- b. The Major Road Fund accounts for the State of Michigan Public Act 51 monies that are used to construct and maintain major road systems.
- c. The Local Road Fund accounts for the State of Michigan Public Act 51 monies that are used to construct and maintain local road systems.
- d. The Fire Fund accounts for all revenue and expenditures for citywide fire operations, including millage collection.
- e. The Special Police Protection Fund accounts for the special millage for City police protection contracted with Oakland County.

The City reports the following major proprietary fund:

The Water and Sewer Fund records maintenance and operations of water and sewer departments provided for City residents and is financed primarily through user charges.

Note 1 - Summary of Significant Accounting Policies (Continued)

Additionally, the City reports the following fund types:

- a. Internal Service Funds account for costs of operating and maintaining the land, buildings, machinery, equipment, and vehicle purchases of the City, as well as risk management services provided to other departments of the City on a cost reimbursement basis.
- b. The Agency Funds account for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2005 tax is levied and collectible on December 1, 2005, and is recognized as revenue in the year ended December 31, 2006, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2005 taxable valuation of the City totaled approximately \$3,400,000,000 (of which approximately \$45,000,000 and \$700,000 are captured by the LDFA and Brownfield Authority, respectively), on which taxes are levied as follows:

Function	Mills	Dollars
General operating purposes	3.2169	\$ 10,790,046
Fire operating services	1.9000	6,372,933
Police protection services	1.2195	4,090,416
OPC operating and transportation	.3326	1,115,599
R.A.R.A. operating	.1586	531,972
Pathway Fund maintenance	.1281	429,670
Drain maintenance	.3526	1,182,682
Debt service	1.2703	4,319,547
Green space preservation	.3000	1,006,253

These amounts are recognized in the respective General, Special Revenue, and Debt Service Funds financial statements as tax revenue. In addition, there are .7895 mills that are collected by the City for library operations.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Investment income from pooled investments is generally allocated to each fund using a weighted average.

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - Assets have been restricted in the primary government, as they represent the assets held by Oakland County to be applied against future payment obligations of the City. See Note 8 for additional discussion.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, water and sewer mains, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$3,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Assets are depreciated using the straight-line method over the following useful lives:

Roads	20 years
Drainage flow rights	40 years
Water and sewer distribution systems	50 years
Buildings	50 years
Land improvements	15 years
Building improvements	10 years
Other tools and equipment	8 years
Vehicles	7 years
Office furnishings	3 years

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Annual Leave) - It is the City's policy to permit employees to accumulate earned but unused vacation and annual leave pay benefits. Historically, these benefits have been liquidated by the General Fund or other operating fund to which each employee is assigned. All vacation and annual leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective-interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Reserves of fund balance represent finance expenditures of a subsequent accounting period.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2006

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall at January 1, 2006		\$	(627,660)
Building permit revenue			1,552,624
Related expenses:			
Direct expenses	\$	2,120,543	
Estimated indirect costs		<u>318,081</u>	<u>2,438,624</u>
Current year shortfall			<u>(886,000)</u>
Cumulative shortfall at December 31, 2006		\$	<u><u>(1,513,660)</u></u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated 14 banks for the deposit of its funds. The investment policy adopted by the City in accordance with Public Act 196 of 1997 has authorized investment in all investments permissible under Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended), as listed above. The City's deposits and investment policies are in accordance with statutory authority.

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2006

Note 3 - Deposits and Investments (Continued)

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's deposit policy for custodial credit risk requires that all financial institutions utilized by the City maintain an office within the state of Michigan and meet certain requirements and financial criteria. At year end, the City had approximately \$34,994,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The component units had approximately \$1,377,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. The City's investment policy minimizes the risk that the market value of the securities in the portfolio will fall due to changes in the general interest rate by structuring the maturities of the portfolio to meet cash requirements of ongoing operations, thereby avoiding the need to liquidate securities prior to maturity. This is done by investing operating funds primarily in short-term securities and investment pools and only purchasing securities with the intent to hold to maturity. At year end, the average maturities of investments are as follows:

Investments	Fair Value	Weighted Average Maturity
Government agency securities	\$ 17,988,548	319 days
U.S. Treasury securities	13,859,825	294 days
Commercial paper	13,705,637	148 days

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2006

Note 3 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy minimizes credit risk by limiting investments to the safest types of securities, pre-qualifying the financial institutions and intermediaries with which the City does business, and diversifying the portfolio so potential losses on individual securities will be minimized. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investments	Fair Value	Rating	Rating Organization
Government agency securities	\$ 17,988,548	AAA	Standard and Poor's
Commercial paper	13,705,637	A-1 +	Standard and Poor's
Pooled investment funds	7,123,697	AAAm	Standard and Poor's
Pooled investment funds	37,131,864	AAA/VI	Fitch Ratings
Pooled investment funds	3,952,334	AAA	Standard and Poor's

Concentration of Credit Risk

The City's investment policy minimizes the risk inherent in placing a large portion of the portfolio with a single security issuer by limiting such placement to 10 percent of the total portfolio, defined as securities plus deposits and cash equivalents. At December 31, 2006, 7.52 percent of the City's investments are in Federal Home Loan Bank bonds and 5.74 percent are in Federal National Mortgage Association bonds.

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds and the governmental activities also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Property taxes	\$ -	\$ 31,793,461
Special assessments	564,911	-
Other	-	100,680
Total deferred revenue	\$ 564,911	\$ 31,894,141

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2006

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance January 1, 2006	Additions	Disposals and Adjustments	Balance December 31, 2006
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 18,579,474	\$ 140,579	\$ -	\$ 18,720,053
Right of way	41,552,654	1,221,225	-	42,773,879
Subtotal	60,132,128	1,361,804		61,493,932
Capital assets being depreciated:				
Roads	77,614,748	4,235,224	-	81,849,972
Drain flowage rights	30,772,175	-	-	30,772,175
Land improvements	11,960,938	527,226	-	12,488,164
Building improvements	29,014,337	74,628	157,220	28,931,745
Vehicles	9,206,056	252,361	145,936	9,312,481
Office furnishings	4,900,796	856,164	115,070	5,641,890
Other tools and equipment	4,605,960	368,675	175,735	4,798,900
Subtotal	168,075,010	6,314,278	593,961	173,795,327
Accumulated depreciation:				
Roads	36,571,939	4,070,809	-	40,642,748
Drain flowage rights	10,173,133	769,304	-	10,942,437
Land improvements	7,161,403	592,534	-	7,753,937
Building improvements	6,969,248	918,972	5,241	7,882,979
Vehicles	5,715,560	679,825	145,936	6,249,449
Office furnishings	3,800,469	730,080	115,070	4,415,479
Other tools and equipment	2,914,523	394,311	173,009	3,135,825
Subtotal	73,306,275	8,155,835	439,256	81,022,854
Net capital assets being depreciated	94,768,735	(1,841,557)	154,705	92,772,473
Net capital assets	\$ 154,900,863	\$ (479,753)	\$ 154,705	\$ 154,266,405

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2006

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance January 1, 2006	Additions	Disposals and Adjustments	Balance December 31, 2006
Capital assets not being depreciated:				
Land	\$ 5,092,057	\$ -	\$ 133,885	\$ 4,958,172
Construction in progress	1,035,326	1,128,291	597,634	1,565,983
Subtotal	6,127,383	1,128,291	731,519	6,524,155
Capital assets being depreciated:				
Water and sewer distribution systems	143,268,564	4,646,891	(597,634)	148,513,089
Land improvements	196,906	-	-	196,906
Building improvements	1,036,177	24,935	-	1,061,112
Office furnishings	14,184	-	-	14,184
Other tools and equipment	5,425,415	914,634	4,720	6,335,329
Subtotal	149,941,246	5,586,460	(592,914)	156,120,620
Accumulated depreciation:				
Water and sewer distribution systems	49,342,317	2,883,673	-	52,225,990
Land improvements	182,491	2,836	-	185,327
Building improvements	491,620	26,151	-	517,771
Office furnishings	5,396	2,678	-	8,074
Other tools and equipment	3,824,558	439,378	4,720	4,259,216
Subtotal	53,846,382	3,354,716	4,720	57,196,378
Net capital assets being depreciated	96,094,864	2,231,744	(597,634)	98,924,242
Net capital assets	\$ 102,222,247	\$ 3,360,035	\$ 133,885	\$ 105,448,397

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2006

Note 5 - Capital Assets (Continued)

Capital asset activity for the City of Rochester Hills' component units for the year was as follows:

Component Units	Balance January 1, 2006	Additions	Disposals and Adjustments	Balance December 31, 2006
Land	\$ 2,790,244	\$ -	\$ -	\$ 2,790,244
Capital assets being depreciated:				
Building	12,940,297	-	-	12,940,297
Building improvements	786,994	90,533	-	877,527
Land improvements	15,667	-	-	15,667
Furniture, equipment, and other	1,837,301	61,193	7,521	1,890,973
Vehicles	595,138	154,053	45,000	704,191
Subtotal	16,175,397	305,779	52,521	16,428,655
Less accumulated depreciation	1,858,841	638,984	43,702	2,454,123
Net capital assets being depreciated	14,316,556	(333,205)	8,819	13,974,532
Net capital assets	\$ 17,106,800	\$ (333,205)	\$ 8,819	\$ 16,764,776

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 91,401
Public works	5,320,720
Public safety	682,907
Recreation and culture	586,766
Internal Service Fund depreciation is charged to the various function based on their usage of the asset	1,474,041
Total governmental activities	<u>\$ 8,155,835</u>

Business-type activities:

Water	\$ 1,959,112
Sewer	1,395,604
Total business-type activities	<u>\$ 3,354,716</u>

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2006

Note 5 - Capital Assets (Continued)

Construction Commitments - The City has active projects at year end. The projects include various infrastructure improvements, computer improvements, and a construction of a new Department of Public Service facility. At year end, the City's commitments are as follows:

	Total Contract Amount	Remaining Commitment
Road and drain infrastructure and improvements	\$ 2,517,273	\$ 1,293,748
Water and sewer radio read system	2,773,420	1,534,637
Computer upgrade and records management	1,249,636	276,551
New Department of Public Service facility	<u>12,569,736</u>	<u>10,895,476</u>
Total	<u>\$ 19,110,065</u>	<u>\$ 14,000,412</u>

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Local Road Fund	Major Road Fund	\$ 1,589

This balance results from the time lag between the dates that payment between funds are made.

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2006

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
General Fund	Major Road Fund	\$ 1,672,391
	Local Road Fund	1,717,480
	Special Police Fund	2,648,400
	Nonmajor governmental funds	1,590,280
	Building and Grounds Fund	<u>508,090</u>
	Total General Fund	8,136,641
Local Road Fund	Nonmajor governmental funds	340,810
Fire Fund	Nonmajor governmental funds	1,748,690
Special Police Fund	Building and Grounds Fund	371,690
Nonmajor governmental funds	General Fund	40,015
	Nonmajor governmental funds	246,800
	Building and Grounds Fund	223,600
	MIS Fund	175,000
	Fleet Fund	<u>1,730</u>
	Total nonmajor governmental funds	687,145
Building and Grounds Fund	Nonmajor governmental funds	148,600
Fleet Equipment Fund	Nonmajor governmental funds	<u>55,230</u>
	Total Internal Service	<u>203,830</u>
	Total	<u>\$ 11,488,806</u>

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2006

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

The transfers from the General Fund and nonmajor governmental funds to the Major and Local Road Funds, Special Police Protection Fund, additional nonmajor governmental funds, Building and Grounds Fund, and Fleet Equipment Fund represent the use of unrestricted resources to finance those programs, in accordance with budgetary authorizations; the transfer from the Local Road Fund to nonmajor governmental funds and Special Police Fund represents the movement of resources to be used to service debt; the transfer from the Fire Fund represents movement of resources to be used for the purchase of capital outlay specifically for the fire department; and the transfer from Building and Grounds Fund and Fleet Equipment Fund represent resources that were provided for building addition or vehicle replacement that a commitment for resources no longer exists.

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
<u>General obligation bonds:</u>					
Building Authority Bonds, Series 2002 payable through 2021 with interest at 3.12% to 4.75%	\$ 8,700,000	\$ -	\$ (300,000)	\$ 8,400,000	\$ 300,000
General Obligation Limited Tax Capital Improvement Bond, Series 2002, payable through 2017 with interest at 3.0% to 4.5%	4,175,000	-	(200,000)	3,975,000	225,000
General Obligation Unlimited Tax Bonds, OPC, Series 2001 payable through 2021 with interest at 3.5% to 5.0%	8,870,000	-	(350,000)	8,520,000	350,000
Michigan Transportation Fund Bond, MTF-2001 Series payable through 2016 with interest at 4.25% to 4.6%	2,125,000	-	(100,000)	2,025,000	150,000

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2006

Note 7 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>General obligation bonds (Continued):</u>					
Refunding Bond, payable through 2010 with interest at 3.9% to 4.9%	\$ 3,235,000	\$ -	\$ (30,000)	\$ 3,205,000	\$ 30,000
Refunding Bond, payable through 2008 with interest at 2.0% to 3.5%	3,655,000	-	(1,275,000)	2,380,000	1,300,000
<u>County contractual obligations:</u>					
Ireland Drain, payable through 2010 with interest at 7.42%	700,243	-	(131,296)	568,947	136,158
Crake Drain Refunding, payable through 2011 with interest at 1.50% to 3.55%	874,088	-	(152,405)	721,683	147,923
Lueders Drain, payable through 2011 with interest at 4.25% to 5.0%	2,033,010	-	(295,040)	1,737,970	331,920
Lueders Drain #2, payable through 2011 with interest at 4.0% to 6.0%	700,000	-	(100,000)	600,000	100,000
McIntyre Drain, payable through 2013 with interest at 2.75% to 5.20%	646,706	-	(64,177)	582,529	69,113
Hampton Drain, payable through 2013 with interest at 2.75% to 5.2%	462,544	-	(47,111)	415,433	51,394
Bishop Drain, payable through 2013 with interest at 2.8% to 5.3%	850,000	-	(75,000)	775,000	100,000
Chester Drain Refunding, payable through 2013 with interest at 1.25% to 2.75%	1,415,000	-	(185,000)	1,230,000	180,000
Robert Huber Drain, payable through 2014 with interest at 3.3% to 2.0%	1,010,000	-	(95,000)	915,000	115,000
Wolf Drain, payable through 2013 with interest at 4.0% to 4.7%	2,938,422	-	(301,031)	2,637,391	314,510
Rewold Drain, payable through 2025 with interest at 3.0% to 4.3%	3,235,000	-	(155,000)	3,080,000	115,000
Capital project lease - Oakland County Building Authority, Building Authority Bonds, Series 2002A, payable through 2020 with interest at 3.0% to 4.75%	4,650,000	-	(1,020,000)	3,630,000	200,000

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2006

Note 7 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Special assessment bonds:</u>					
Public Improvement City Share Bonds, 1994 Series, payable through 2009 with interest at 4.75% to 6.15%	\$ 200,000	\$ -	\$ (50,000)	\$ 150,000	\$ 50,000
Public Improvement Special Assessment Bonds, 1994 Series, payable through 2009 with interest at 4.75% to 6.15%	445,000	-	(100,000)	345,000	125,000
Public Improvement City Share Bonds, 1995 Series, payable through 2010 with interest at 4.25% to 5.5%	250,000	-	(50,000)	200,000	50,000
Public Improvement Special Assessment Bonds, 1995 Series, payable through 2010 with interest at 4.25% to 5.5%	565,000	-	(105,000)	460,000	105,000
Public Improvement City Share Bonds, 2001 Series, payable through 2016 with interest at 2.6% to 4.7%	1,050,000	-	(75,000)	975,000	75,000
Public Improvement Special Assessment Bonds, 2001 Series, payable through 2016 with interest at 3.0% to 4.7%	<u>1,025,000</u>	<u>-</u>	<u>(50,000)</u>	<u>975,000</u>	<u>75,000</u>
Total bond obligations	53,810,013	-	(5,306,060)	48,503,953	4,696,018
Tax tribunal	65,626	36,287	(47,091)	54,822	-
Consent judgement payable	-	2,443,300	-	2,443,300	2,443,300
Compensated absences	<u>988,626</u>	<u>1,122,156</u>	<u>(1,031,224)</u>	<u>1,079,558</u>	<u>794,046</u>
Total other long-term obligations	<u>1,054,252</u>	<u>3,601,743</u>	<u>(1,078,315)</u>	<u>3,577,680</u>	<u>3,237,346</u>
Total governmental activities	<u>\$ 54,864,265</u>	<u>\$ 3,601,743</u>	<u>\$ (6,384,375)</u>	<u>\$ 52,081,633</u>	<u>\$ 7,933,364</u>
Business-type Activities - Oakland County Water and Sewage Disposal System Bonds, Series 2005, payable through 2025 with interest at 4.0% to 4.5%					
	<u>\$ 3,800,000</u>	<u>\$ -</u>	<u>\$ (100,000)</u>	<u>\$ 3,700,000</u>	<u>\$ 150,000</u>
Component Units - Compensated absences					
	<u>\$ 28,530</u>	<u>\$ 42,061</u>	<u>\$ (35,974)</u>	<u>\$ 34,617</u>	<u>\$ 29,350</u>

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2006

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 4,696,018	\$ 2,066,162	\$ 6,762,180	\$ 150,000	\$ 152,782	\$ 302,782
2008	4,869,707	1,890,273	6,759,980	150,000	146,782	296,782
2009	5,222,417	1,693,847	6,916,264	150,000	140,781	290,781
2010	5,073,247	1,462,839	6,536,086	150,000	134,782	284,782
2011	3,569,040	1,241,901	4,810,941	150,000	128,782	278,782
2012-2016	14,133,524	4,316,442	18,449,966	900,000	540,807	1,440,807
2017-2021	10,085,000	1,481,137	11,566,137	1,050,000	340,052	1,390,052
2022-2025	855,000	74,616	929,616	1,000,000	93,073	1,093,073
Total	<u>\$ 48,503,953</u>	<u>\$ 14,227,217</u>	<u>\$ 62,731,170</u>	<u>\$ 3,700,000</u>	<u>\$ 1,677,841</u>	<u>\$ 5,377,841</u>

Advance and Current Refundings

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the basic financial statements. At December 31, 2006, \$7,329,001 of bonds outstanding are considered defeased.

Note 8 - Restricted Assets

Assets held at the County represent the City's unspent portion of bond proceeds held for the improvement of the water and sewer system and a sheriff substation in the amount of \$1,981,897 and \$1,519, respectively. The County holds these monies to apply against future water and sewer system construction for the City and future debt obligations for the sheriff's facility, as well as \$197,356 for future drain system projects. Oakland County has invested these monies and allocated interest earned as an increase to the amount due the City.

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2006

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims and participates in the Michigan Municipal League risk pool program for workers' compensation claims and the Michigan Municipal Risk Management Authority risk pool for claims relating to general liability, motor vehicles, and comprehensive property damage. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City.

The City estimates the liability for general claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. These estimates are reported in the Insurance (Internal Service) Fund. Changes in the estimated liability for the past two fiscal years were as follows:

	2006	2005
Estimated liability - Beginning of year	\$ 279,448	\$ 272,402
Estimated claims incurred, including changes in estimates	48,143	160,307
Claims payments	(87,801)	(153,261)
Estimated liability - End of year	<u>\$ 239,790</u>	<u>\$ 279,448</u>
Estimated liability for claims reported	\$ 61,790	\$ 101,448
Estimated liability for claims incurred but not reported	<u>178,000</u>	<u>178,000</u>
Total estimated liability	<u>\$ 239,790</u>	<u>\$ 279,448</u>

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2006

Note 10 - Defined Contribution Pension Plan

The Rochester Hills Group Pension Plan, which is administered by the City, provides pension benefits for substantially all of its full-time employees, City Council members, and paid on-call firefighters through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees over 18 years of age are eligible to participate after a six-month probationary period. As established by the pension contract, the City contributes 12 percent or 14 percent of employees' gross earnings, certain union employees have a mandatory 1 percent employee match, and any participant can match City contributions at their discretion. In accordance with these requirements, the City contributed \$1,789,372 during the current year, employees' mandatory contributions were \$24,207, and employee voluntary contributions were \$29,498. The City's contributions for each employee (plus interest allocated to the employee's account) are fully vested after five years of continuous service.

Note 11 - Other Postemployment Benefits

The City has established a retiree health benefit program, which is composed of a health savings plan and a supplemental benefit plan. All active full-time employees who have completed their six-month probationary period are eligible for the health savings plan. The supplemental benefit plan is available only to those employees with 10 years of credited service as of March 21, 2001 and unreserved designations are reflected in the General Fund, Fire Fund, and Water and Sewer Fund. The City contributes to the health savings plan on a monthly basis a minimum of 3 percent of the compensation of all eligible employees. Employees must contribute the monetary equivalent of up to 16 hours of unused annual leave time over the maximum 40-hour accrual to the health savings plan annually. Benefits paid out depend solely on amounts contributed to the plan plus investment earnings. During the year, the City contributed, from various funds, \$521,362 to the health savings plan.

Expenditures for postemployment health care costs for employees participating in the supplemental benefit plan are paid as the applicable costs are incurred. During the year, this amounted to approximately \$35,000.

Note 11 - Other Postemployment Benefits (Continued)

Upcoming Reporting Change - The Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2008.

Required Supplemental Information

City of Rochester Hills, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues				
Property taxes	\$ 10,987,170	\$ 10,894,490	\$ 10,875,979	\$ (18,511)
Federal sources	176,550	101,720	189,630	87,910
State sources	5,201,820	5,368,000	5,375,537	7,537
Fees and permits	2,136,700	1,924,450	2,062,119	137,669
Fines and forfeitures	112,000	45,310	138,260	92,950
Charges for services	5,566,790	4,553,120	4,598,910	45,790
Interest earnings	480,000	1,155,000	1,146,073	(8,927)
Other	-	23,830	45,486	21,656
Sales of fixed assets	-	5,450	14,033	8,583
Transfer from other funds	-	40,020	40,015	(5)
Total revenues	24,661,030	24,111,390	24,486,042	374,652
Expenditures				
General government:				
City Council	259,430	192,790	174,212	18,578
City administration	3,756,020	4,598,480	3,205,721	1,392,759
Clerk	1,399,230	1,170,810	1,108,013	62,797
Assessing	1,761,980	1,566,590	1,547,144	19,446
Human resources	677,640	617,440	610,321	7,119
Support services	139,020	119,700	102,469	17,231
Public works:				
City development	550,650	540,890	528,941	11,949
Cemetery	249,770	217,610	206,990	10,620
Public safety:				
Building	3,352,130	3,010,770	3,025,175	(14,405)
Crossing guard	59,500	51,010	49,677	1,333
Community and economic development:				
Planning	1,147,330	996,360	959,772	36,588
Community development block grant	176,550	185,770	184,472	1,298
Recreation and culture:				
Parks and recreation	3,051,900	3,023,720	3,024,148	(428)
Historic district commission	11,400	14,690	7,201	7,489
Transfers to other funds	8,091,620	8,136,650	8,136,641	9
Total expenditures	24,684,170	24,443,280	22,870,897	1,572,383
Excess of Revenue Over (Under) Expenditures	(23,140)	(331,890)	1,615,145	1,947,035
Fund Balance - Beginning of year	10,459,751	11,964,303	11,964,303	-
Fund Balance - End of year	\$ 10,436,611	\$ 11,632,413	\$ 13,579,448	\$ 1,947,035

City of Rochester Hills, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Major Road Year Ended December 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues				
State sources	\$ 3,220,010	\$ 3,162,000	\$ 3,100,240	\$ (61,760)
Federal grant	-	-	1,814	1,814
Charges for services	213,950	226,060	225,623	(437)
Interest earnings	300,000	861,020	873,330	12,310
Other	2,387,360	232,880	130,307	(102,573)
Transfer from other funds	1,692,480	1,672,400	1,672,391	(9)
Total revenues	7,813,800	6,154,360	6,003,705	(150,655)
Expenditures - Public works				
Street maintenance	2,031,880	1,781,170	1,558,588	222,582
Capital outlay	8,618,760	4,010,840	2,827,740	1,183,100
Total expenditures	10,650,640	5,792,010	4,386,328	1,405,682
Excess of Revenue Over (Under) Expenditures	(2,836,840)	362,350	1,617,377	1,255,027
Fund Balance - Beginning of year	16,549,691	16,805,710	16,805,710	-
Fund Balance - End of year	<u>\$ 13,712,851</u>	<u>\$ 17,168,060</u>	<u>\$ 18,423,087</u>	<u>\$ 1,255,027</u>

City of Rochester Hills, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Local Road Year Ended December 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues				
State sources	\$ 1,216,070	\$ 1,178,760	\$ 1,185,402	\$ 6,642
Other governmental sources	40,000	40,000	40,000	-
Licenses and permits	10,000	8,000	10,867	2,867
Charges for services	102,200	37,200	39,044	1,844
Special assessment	20,390	35,600	40,213	4,613
Interest earnings	73,080	128,470	131,290	2,820
Other	-	24,740	21,875	(2,865)
Transfer from other funds	25,000	1,717,480	1,717,480	-
Total revenues	1,486,740	3,170,250	3,186,171	15,921
Expenditures				
Public works:				
Street maintenance	1,954,150	2,129,840	1,735,528	394,312
Capital outlay	20,000	557,060	324,638	232,422
Transfers to other funds	340,810	340,810	340,810	-
Total expenditures	2,314,960	3,027,710	2,400,976	626,734
Excess of Revenue Over (Under) Expenditures	(828,220)	142,540	785,195	642,655
Fund Balance - Beginning of year	1,575,677	2,153,691	2,153,691	-
Fund Balance - End of year	\$ 747,457	\$ 2,296,231	\$ 2,938,886	\$ 642,655

City of Rochester Hills, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Fire Fund Year Ended December 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 6,446,500	\$ 6,391,940	\$ 6,391,561	\$ (379)
State sources	3,450	3,450	8,649	5,199
Federal grant	-	-	4,862	4,862
Licenses and permits	13,500	11,000	12,175	1,175
Fines and forfeitures	8,000	11,000	10,668	(332)
Charges for services	959,500	1,056,690	1,099,552	42,862
Interest earnings	90,000	305,000	206,980	(98,020)
Other	2,000	19,570	33,145	13,575
Sales of fixed assets	-	-	484	484
Total revenue	7,522,950	7,798,650	7,768,076	(30,574)
Expenditures				
Public safety - Fire	6,664,240	6,141,480	5,964,111	177,369
Transfers to other funds	796,810	1,748,690	1,748,690	-
Total expenditures	7,461,050	7,890,170	7,712,801	177,369
Excess of Revenue Over (Under) Expenditures	61,900	(91,520)	55,275	146,795
Fund Balance - Beginning of year	2,213,588	1,172,238	1,172,238	-
Fund Balance - End of year	\$ 2,275,488	\$ 1,080,718	\$ 1,227,513	\$ 146,795

City of Rochester Hills, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Special Police Protection Year Ended December 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues				
Property taxes	\$ 4,137,640	\$ 4,102,420	\$ 4,102,393	\$ (27)
State sources	28,000	30,360	30,364	4
Licenses and permits	24,000	-	-	-
Other governmental sources	228,680	231,550	231,548	(2)
Fines and forfeitures	390,000	295,230	297,315	2,085
Charges for services	105,810	134,000	134,658	658
Interest earnings	90,000	154,000	152,063	(1,937)
Other	-	-	79	79
Transfer from other funds	2,566,700	2,648,400	2,648,400	-
Total revenues	7,570,830	7,595,960	7,596,820	860
Expenditures				
Public safety - Police	7,510,090	7,610,220	7,560,476	49,744
Transfers to other funds	391,090	371,690	371,690	-
Total expenditures	7,901,180	7,981,910	7,932,166	49,744
Excess of Expenditures Over Revenue	(330,350)	(385,950)	(335,346)	50,604
Fund Balance - Beginning of year	761,439	742,979	742,979	-
Fund Balance - End of year	\$ 431,089	\$ 357,029	\$ 407,633	\$ 50,604

City of Rochester Hills, Michigan

Note to Required Supplemental Information

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all City funds except that operating transfers and debt proceeds have been included in the “revenue” and “expenditures” categories, rather than as “other financing sources (uses).” All annual appropriations lapse at fiscal year end. During the year, the budget was amended in a legally permissible manner.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or before the first Monday in July, each department director submits to the mayor a proposed operating budget for the next fiscal year.
2. The mayor prepares a comprehensive budget, which is presented to the City Council at the first meeting in August.
3. Public hearings are conducted to obtain residents’ comments.
4. Prior to November 1, the budget is legally adopted by the City Council.
5. Supplemental appropriations to the City’s budget require the approval of the City Council.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the fund level.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - The City had no significant expenditure budget variances for the year.

Other Supplemental Information

City of Rochester Hills, Michigan

Other Supplemental Information Combining Balance Sheet - All Fund Types Nonmajor Governmental Funds December 31, 2006

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Total Nonmajor Governmental Funds
Assets				
Cash and investments	\$ 11,722,371	\$ 8,466,223	\$ 13,132,855	\$ 33,321,449
Receivables:				
Property tax	1,960,386	2,310,949	-	4,271,335
Accounts	20,279	4,751	-	25,030
Accrued interest	59,732	73,758	147,938	281,428
Restricted assets - Assets held at County	197,356	-	-	197,356
Long-term receivables - Special assessments	-	401,226	-	401,226
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 13,960,124</u>	<u>\$ 11,256,907</u>	<u>\$ 13,280,793</u>	<u>\$ 38,497,824</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 7,500	\$ -	\$ 6,028	\$ 13,528
Accrued wages	10,529	-	-	10,529
Deposits and escrows	436,886	-	-	436,886
Deferred revenue	3,610,054	4,687,287	-	8,297,341
Other liabilities	814	-	-	814
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	4,065,783	4,687,287	6,028	8,759,098
Fund Balances				
Unreserved, designated for subsequent year's budget	684,830	842,400	276,140	1,803,370
Unreserved/Undesignated	9,209,511	5,727,220	12,998,625	27,935,356
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	9,894,341	6,569,620	13,274,765	29,738,726
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 13,960,124</u>	<u>\$ 11,256,907</u>	<u>\$ 13,280,793</u>	<u>\$ 38,497,824</u>

City of Rochester Hills, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - All Fund Types Nonmajor Governmental Funds Year Ended December 31, 2006

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Total Nonmajor Governmental Funds
Revenue				
Property taxes	\$ 4,283,968	\$ 4,331,851	\$ -	\$ 8,615,819
State grants	20,043	-	-	20,043
Charges for services	267,363	-	115	267,478
Interest earnings	506,488	444,004	542,829	1,493,321
Special assessments	-	62,977	-	62,977
Other	37,868	75,049	9,798	122,715
Total revenue	5,115,730	4,913,881	552,742	10,582,353
Expenditures				
Public works	1,562,753	-	-	1,562,753
Parks and recreation	1,660,391	-	-	1,660,391
Capital outlay	57,274	-	300,373	357,647
Debt service:				
Principal retirement	-	4,286,060	-	4,286,060
Interest and fiscal charges	-	2,077,158	-	2,077,158
Paying agent and other	-	1,359	-	1,359
Total expenditures	3,280,418	6,364,577	300,373	9,945,368
Excess of Revenue Over (Under) Expenditures	1,835,312	(1,450,696)	252,369	636,985
Other Financing Sources (Uses)				
Transfers in	148,600	1,020,420	2,961,390	4,130,410
Transfers out	(286,815)	-	(400,330)	(687,145)
Total other financing sources (uses)	(138,215)	1,020,420	2,561,060	3,443,265
Net Change in Fund Balance	1,697,097	(430,276)	2,813,429	4,080,250
Fund Balances - Beginning of year	8,197,244	6,999,896	10,461,336	25,658,476
Fund Balances - End of year	\$ 9,894,341	\$ 6,569,620	\$ 13,274,765	\$ 29,738,726

Nonmajor Special Revenue Funds

Special Revenue Funds account for resources legally restricted to expenditures for specified current operating purposes or to the acquisition of furniture, fixtures, machinery, equipment, or other relatively minor or comparatively short-lived fixed assets.

R.A.R.A. Millage Fund - This fund accounts for the special millage for Rochester-Avon Recreation Authority (R.A.R.A.) activities.

Pathway Fund - This fund accounts for the special millage used primarily to maintain pathways.

Solid Waste Management Fund - This fund accounts for solid waste issues.

Public Improvement Fund - This fund accounts for the special millage for drainage improvement.

Older Persons' Millage Fund - This fund accounts for the special millage for the Older Persons' Commission activities.

Stoney Creek Perpetual Care Fund - This fund accounts for monies collected from sales of cemetery lots and spaces. A portion of this money is then deposited in this fund until such time as the cemetery is full. The remaining funds will then be used for ongoing cemetery maintenance.

Tree Fund - This fund accounts for monies collected from tree deposits. The monies can only be used for maintaining and preserving wooded areas.

Green Space Preservation - This fund accounts for the special millage to permanently preserve natural green spaces and wildlife habitats, and protect woodlands, wetland, rivers, and streams.

City of Rochester Hills, Michigan

	R.A.R.A. Millage Fund	Pathway Fund	Solid Waste Management Fund	Public Improvement Fund
Assets				
Cash and investments	\$ 313,624	\$ 541,973	\$ -	\$ 5,838,904
Receivables:				
Property tax	379,467	361,564	-	-
Accounts	-	39	-	20,240
Accrued interest	-	770	-	29,407
Restricted assets - Assets held at County	-	-	-	197,356
Total assets	<u>\$ 693,091</u>	<u>\$ 904,346</u>	<u>\$ -</u>	<u>\$ 6,085,907</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ 7,180
Accrued wages	-	452	-	10,077
Deposits and escrows	-	1,600	-	-
Deferred revenue	693,091	660,391	-	29,439
Other liabilities	-	33	-	781
Total liabilities	693,091	662,476	-	47,477
Fund Balances				
Unreserved, designated for subsequent year's budget	-	-	-	596,000
Unreserved/Undesignated	-	241,870	-	5,442,430
Total fund balances	-	241,870	-	6,038,430
Total liabilities and fund balances	<u>\$ 693,091</u>	<u>\$ 904,346</u>	<u>\$ -</u>	<u>\$ 6,085,907</u>

**Combining Balance Sheet
Nonmajor Governmental Funds
Special Revenue Funds
December 31, 2006**

Older Persons' Millage Fund	Stoney Creek Perpetual Care Fund	Tree Fund	Green Space Preservation	Total Nonmajor Special Revenue Funds
\$ 529,783	\$ 1,111,170	\$ 1,855,929	\$ 1,530,988	\$ 11,722,371
641,008	-	-	578,347	1,960,386
-	-	-	-	20,279
-	8,350	21,205	-	59,732
-	-	-	-	197,356
<u>\$ 1,170,791</u>	<u>\$ 1,119,520</u>	<u>\$ 1,877,134</u>	<u>\$ 2,109,335</u>	<u>\$ 13,960,124</u>
\$ -	\$ -	\$ -	\$ 320	\$ 7,500
-	-	-	-	10,529
-	-	435,286	-	436,886
1,170,791	-	-	1,056,342	3,610,054
-	-	-	-	814
<u>1,170,791</u>	<u>-</u>	<u>435,286</u>	<u>1,056,662</u>	<u>4,065,783</u>
-	88,830	-	-	684,830
-	1,030,690	1,441,848	1,052,673	9,209,511
<u>-</u>	<u>1,119,520</u>	<u>1,441,848</u>	<u>1,052,673</u>	<u>9,894,341</u>
<u>\$ 1,170,791</u>	<u>\$ 1,119,520</u>	<u>\$ 1,877,134</u>	<u>\$ 2,109,335</u>	<u>\$ 13,960,124</u>

City of Rochester Hills, Michigan

	R.A.R.A Millage		Solid Waste	Public	Older Persons'
	Fund	Pathway Fund	Management	Improvement	Millage Fund
			Fund	Fund	
Revenue					
Property taxes	\$ 535,898	\$ 431,072	\$ -	\$ 1,186,043	\$ 1,122,486
State grants	-	-	-	-	-
Charges for services	-	3,283	-	155,257	-
Investment earnings	-	20,558	325	300,059	-
Other	-	252	6	37,329	-
Total revenue	535,898	455,165	331	1,678,688	1,122,486
Expenditures					
Public works	-	196,791	-	1,287,198	-
Parks and recreation	535,898	-	-	-	1,122,486
Capital outlay	-	-	-	57,274	-
Total expenditures	535,898	196,791	-	1,344,472	1,122,486
Excess of Revenue Over Expenditures	-	258,374	331	334,216	-
Other Financing Sources (Uses)					
Transfers in	-	-	-	-	-
Transfers out	-	(246,800)	(40,015)	-	-
Total other financing sources (uses)	-	(246,800)	(40,015)	-	-
Net Change in Fund Balance	-	11,574	(39,684)	334,216	-
Fund Balances - Beginning of year	-	230,296	39,684	5,704,214	-
Fund Balances - End of year	<u>\$ -</u>	<u>\$ 241,870</u>	<u>\$ -</u>	<u>\$ 6,038,430</u>	<u>\$ -</u>

**Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances - Nonmajor Governmental Funds
Special Revenue Funds
Year Ended December 31, 2006**

Stoney Creek Perpetual Care Fund	Tree Fund	Green Space Preservation	Total Nonmajor Special Revenue Funds
\$ -	\$ -	\$ 1,008,469	\$ 4,283,968
-	20,043	-	20,043
42,214	66,609	-	267,363
49,457	89,878	46,211	506,488
-	281	-	37,868
91,671	176,811	1,054,680	5,115,730
-	78,764	-	1,562,753
-	-	2,007	1,660,391
-	-	-	57,274
-	78,764	2,007	3,280,418
91,671	98,047	1,052,673	1,835,312
148,600	-	-	148,600
-	-	-	(286,815)
148,600	-	-	(138,215)
240,271	98,047	1,052,673	1,697,097
879,249	1,343,801	-	8,197,244
<u>\$ 1,119,520</u>	<u>\$ 1,441,848</u>	<u>\$ 1,052,673</u>	<u>\$ 9,894,341</u>

City of Rochester Hills, Michigan

	R.A.R.A. Millage Fund			Pathway Fund		
	Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue						
Property taxes	\$ 533,950	\$ 535,898	\$ 1,948	\$ 431,110	\$ 431,072	\$ (38)
State grant	-	-	-	-	-	-
Charges for services	-	-	-	3,200	3,283	83
Interest earnings	-	-	-	21,000	20,558	(442)
Transfers in	-	-	-	-	-	-
Other	-	-	-	-	252	252
Total revenue	533,950	535,898	1,948	455,310	455,165	(145)
Expenditures						
Public works	-	-	-	208,510	196,791	11,719
Parks and recreation	533,950	535,898	(1,948)	-	-	-
Capital outlay	-	-	-	-	-	-
Transfers out	-	-	-	246,800	246,800	-
Total expenditures	533,950	535,898	(1,948)	455,310	443,591	11,719
Excess of Revenue Over (Under)						
Expenditures	-	-	-	-	11,574	11,574
Fund Balances - Beginning of year	-	-	-	230,296	230,296	-
Fund Balances - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 230,296</u>	<u>\$ 241,870</u>	<u>\$ 11,574</u>

Special Revenue Funds
Combining Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Amended Budget and Actual
Nonmajor Governmental Budgeted Funds
Year Ended December 31, 2006

Solid Waste Management Fund			Public Improvement Fund		
Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget
\$ -	\$ -	\$ -	\$ 1,186,280	\$ 1,186,043	\$ (237)
-	-	-	-	-	-
-	-	-	132,000	155,257	23,257
320	325	5	295,000	300,059	5,059
-	-	-	-	-	-
-	6	6	28,490	37,329	8,839
320	331	11	1,641,770	1,678,688	36,918
-	-	-	1,587,010	1,287,198	299,812
-	-	-	-	-	-
-	-	-	54,760	57,274	(2,514)
40,020	40,015	5	-	-	-
40,020	40,015	5	1,641,770	1,344,472	297,298
(39,700)	(39,684)	16	-	334,216	334,216
39,684	39,684	-	5,704,214	5,704,214	-
<u>\$ (16)</u>	<u>\$ -</u>	<u>\$ 16</u>	<u>\$ 5,704,214</u>	<u>\$ 6,038,430</u>	<u>\$ 334,216</u>

(Continued on next page)

City of Rochester Hills, Michigan

	Older Persons' Millage Fund			Stoney Creek Perpetual Care Fund		
	Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue						
Property taxes	\$ 1,119,590	\$ 1,122,486	\$ 2,896	\$ -	\$ -	\$ -
State grant	-	-	-	-	-	-
Charges for services	-	-	-	32,000	42,214	10,214
Interest earnings	-	-	-	48,000	49,457	1,457
Transfers in	-	-	-	148,600	148,600	-
Other	-	-	-	-	-	-
Total revenue	1,119,590	1,122,486	2,896	228,600	240,271	11,671
Expenditures						
Public works	-	-	-	-	-	-
Parks and recreation	1,119,590	1,122,486	(2,896)	-	-	-
Capital outlay	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total expenditures	1,119,590	1,122,486	(2,896)	-	-	-
Excess of Revenue Over (Under)						
Expenditures	-	-	-	228,600	240,271	11,671
Fund Balances - Beginning of year	-	-	-	879,249	879,249	-
Fund Balances - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,107,849</u>	<u>\$ 1,119,520</u>	<u>\$ 11,671</u>

Special Revenue Funds
Combining Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Amended Budget and Actual
Nonmajor Governmental Budgeted Funds (Continued)
Year Ended December 31, 2006

Tree Fund			Green Space Preservation			Total		
Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget
\$ -	\$ -	\$ -	\$ 1,008,740	\$ 1,008,469	\$ (271)	\$ 4,279,670	\$ 4,283,968	\$ 4,298
20,000	20,043	43	-	-	-	20,000	20,043	43
66,600	66,609	9	-	-	-	233,800	267,363	33,563
89,620	89,878	258	45,000	46,211	1,211	498,940	506,488	7,548
-	-	-	-	-	-	148,600	148,600	-
-	281	281	-	-	-	28,490	37,868	9,378
176,220	176,811	591	1,053,740	1,054,680	940	5,209,500	5,264,330	54,830
86,880	78,764	8,116	-	-	-	1,882,400	1,562,753	319,647
-	-	-	20,000	2,007	17,993	1,673,540	1,660,391	13,149
-	-	-	-	-	-	54,760	57,274	(2,514)
-	-	-	-	-	-	286,820	286,815	5
86,880	78,764	8,116	20,000	2,007	17,993	3,897,520	3,567,233	330,287
89,340	98,047	8,707	1,033,740	1,052,673	18,933	1,311,980	1,697,097	385,117
1,343,801	1,343,801	-	-	-	-	8,197,244	8,197,244	-
<u>\$ 1,433,141</u>	<u>\$ 1,441,848</u>	<u>\$ 8,707</u>	<u>\$ 1,033,740</u>	<u>\$ 1,052,673</u>	<u>\$ 18,933</u>	<u>\$ 9,509,224</u>	<u>\$ 9,894,341</u>	<u>\$ 385,117</u>

Nonmajor Debt Service Funds

Debt Service Funds account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Road Improvement 2001 Fund - This fund accounts for payment of debt created for improvement to roads using Act 175 bonds. Revenue is generated from tax levies and expenditures are made for principal and interest.

Drain Fund - This fund accounts for payment of debt created for drain construction and maintenance. Revenue is generated from tax levies and expenditures are made for principal and interest.

Local Road Improvement 1994, 1995, 2001, and 2002 Funds - These funds account for payment of debt created for the improvement of local roads using Act 175 bonds. Revenue is generated from special assessment collections, and funds received under Act 51 are transferred to these funds from the Local Road Special Revenue Fund for the City's share. Expenditures are made for principal and interest.

OPC Building Bond 2001 Series Fund - This fund accounts for payment of debt created from the construction of a senior citizens building. Revenue is generated from tax levies and expenditures are made for principal and interest.

Refunding General Obligation Bond Series 1998 Fund - This fund accounts for payment of debt created for the refunding of the park and museum, park and recreation, and the library building bonds' called portion. Revenue is generated from tax levies and expenditures are made for principal and interest.

Refunding Bond Series 2002 Fund - This fund accounts for payment of debt created for refunding of Series 1989, 1990A, 1990B, and 1993 bonds' (park and museum bonds, parks and recreation bonds, and library building bonds) callable portion. Revenue is generated from tax levies and expenditures are made for principal and interest.

Municipal Building Bond Series 2002 Fund - This fund accounts for payment of debt created from the construction of the municipal building addition. Revenue is generated from tax levies and expenditures are made for principal and interest.

City of Rochester Hills, Michigan

	Road Improvement 2001 Fund	Local Road Improvement 2001 Fund	Drain Fund	Local Road Improvement 1994 Fund	Local Road Improvement 1995 Fund
Assets					
Cash and investments	\$ 1,145,125	\$ 682,942	\$ 1,672,585	\$ 580,565	\$ 470,999
Receivables:					
Property tax	-	-	1,179,831	-	-
Accounts	-	3,276	-	794	681
Accrued interest	7,283	14,251	9,125	13,166	10,567
Long-term receivables - Special assessments	-	315,705	-	30,832	54,689
Total assets	<u>\$ 1,152,408</u>	<u>\$ 1,016,174</u>	<u>\$ 2,861,541</u>	<u>\$ 625,357</u>	<u>\$ 536,936</u>
Liabilities and Fund Balances					
Liabilities - Deferred revenue	\$ -	\$ 315,705	\$ 2,188,205	\$ 30,832	\$ 54,688
Fund Balances					
Unreserved, designated for subsequent year's budget	111,770	66,920	-	166,560	116,920
Unreserved/Undesignated	<u>1,040,638</u>	<u>633,549</u>	<u>673,336</u>	<u>427,965</u>	<u>365,328</u>
Total fund balances	<u>1,152,408</u>	<u>700,469</u>	<u>673,336</u>	<u>594,525</u>	<u>482,248</u>
Total liabilities and fund balances	<u>\$ 1,152,408</u>	<u>\$ 1,016,174</u>	<u>\$ 2,861,541</u>	<u>\$ 625,357</u>	<u>\$ 536,936</u>

**Debt Service Funds
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2006**

OPC Building Bond 2001 Series Fund	Refunding General Obligation Bond Series 1998 Fund	Refunding Bond Series 2002	Municipal Building Bond Series 2002 Fund	Local Road Improvement 2002 Fund	Total Nonmajor Debt Service Funds
\$ 495,728	\$ 267,502	\$ 980,331	\$ 37,199	\$ 2,133,247	\$ 8,466,223
392,043	97,621	641,454	-	-	2,310,949
-	-	-	-	-	4,751
-	-	-	-	19,366	73,758
-	-	-	-	-	401,226
<u>\$ 887,771</u>	<u>\$ 365,123</u>	<u>\$ 1,621,785</u>	<u>\$ 37,199</u>	<u>\$ 2,152,613</u>	<u>\$ 11,256,907</u>
\$ 727,113	\$ 181,055	\$ 1,189,689	\$ -	\$ -	\$ 4,687,287
-	-	190,450	-	189,780	842,400
<u>160,658</u>	<u>184,068</u>	<u>241,646</u>	<u>37,199</u>	<u>1,962,833</u>	<u>5,727,220</u>
<u>160,658</u>	<u>184,068</u>	<u>432,096</u>	<u>37,199</u>	<u>2,152,613</u>	<u>6,569,620</u>
<u>\$ 887,771</u>	<u>\$ 365,123</u>	<u>\$ 1,621,785</u>	<u>\$ 37,199</u>	<u>\$ 2,152,613</u>	<u>\$ 11,256,907</u>

City of Rochester Hills, Michigan

	Road Improvement 2001 Fund	Local Road Improvement 2001 Fund	Drain Fund	Local Road Improvement 1994 Fund	Local Road Improvement 1995 Fund
Revenue					
Property taxes	\$ -	\$ -	\$ 2,207,523	\$ -	\$ -
Investment earnings	58,736	55,338	52,356	35,740	30,872
Special assessments	-	36,723	-	10,868	15,386
Other	-	-	75,049	-	-
Total revenue	58,736	92,061	2,334,928	46,608	46,258
Expenditures					
Principal retirement	100,000	125,000	1,601,060	150,000	155,000
Interest and fiscal charges	89,313	89,800	614,484	34,018	43,955
Miscellaneous	-	-	656	-	-
Total expenditures	189,313	214,800	2,216,200	184,018	198,955
Excess of Revenue Over (Under)					
Expenditures	(130,577)	(122,739)	118,728	(137,410)	(152,697)
Other Financing Sources - Transfers in	57,320	91,760	-	-	53,740
Net Change in Fund Balance	(73,257)	(30,979)	118,728	(137,410)	(98,957)
Fund Balances - Beginning of year	1,225,665	731,448	554,608	731,935	581,205
Fund Balances - End of year	<u>\$ 1,152,408</u>	<u>\$ 700,469</u>	<u>\$ 673,336</u>	<u>\$ 594,525</u>	<u>\$ 482,248</u>

Debt Service Funds

**Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended December 31, 2006**

OPC Building Bond 2001 Series Fund	Refunding General Obligation Bond Series 1998 Fund	Refunding Bond Series 2002	Municipal Building Bond Series 2002 Fund	Local Road Improvement 2002 Fund	Total Nonmajor Debt Service Funds
\$ 735,911	\$ 185,512	\$ 1,202,905	\$ -	\$ -	\$ 4,331,851
18,010	12,942	68,186	1,776	110,048	444,004
-	-	-	-	-	62,977
-	-	-	-	-	75,049
753,921	198,454	1,271,091	1,776	110,048	4,913,881
350,000	30,000	1,275,000	300,000	200,000	4,286,060
385,400	156,825	116,975	380,000	166,388	2,077,158
164	67	472	-	-	1,359
735,564	186,892	1,392,447	680,000	366,388	6,364,577
18,357	11,562	(121,356)	(678,224)	(256,340)	(1,450,696)
-	-	-	679,610	137,990	1,020,420
18,357	11,562	(121,356)	1,386	(118,350)	(430,276)
142,301	172,506	553,452	35,813	2,270,963	6,999,896
\$ 160,658	\$ 184,068	\$ 432,096	\$ 37,199	\$ 2,152,613	\$ 6,569,620

City of Rochester Hills, Michigan

	Road Improvement 2001			Local Road Improvement 2001		
	Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investment earnings	58,000	58,736	736	54,890	55,338	448
Special assessments	-	-	-	36,090	36,723	633
Transfers in	57,320	57,320	-	91,760	91,760	-
Other	-	-	-	-	-	-
Total revenue	115,320	116,056	736	182,740	183,821	1,081
Expenditures						
Principal retirement	100,000	100,000	-	125,000	125,000	-
Interest and fiscal charges	89,320	89,313	7	89,800	89,800	-
Miscellaneous	-	-	-	-	-	-
Total expenditures	189,320	189,313	7	214,800	214,800	-
Excess of Revenue Over (Under) Expenditures	(74,000)	(73,257)	743	(32,060)	(30,979)	1,081
Fund Balances - Beginning of year	1,225,665	1,225,665	-	731,448	731,448	-
Fund Balances - End of year	<u>\$ 1,151,665</u>	<u>\$ 1,152,408</u>	<u>\$ 743</u>	<u>\$ 699,388</u>	<u>\$ 700,469</u>	<u>\$ 1,081</u>

Debt Service Funds

**Combining Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Amended Budget and Actual
Nonmajor Governmental Budgeted Funds
Year Ended December 31, 2006**

Drain Fund			Local Road Improvement 1994			Local Road Improvement 1995		
Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget
\$ 2,207,780	\$ 2,207,523	\$ (257)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
52,000	52,356	356	34,790	35,740	950	30,320	30,872	552
-	-	-	10,080	10,868	788	15,380	15,386	6
-	-	-	-	-	-	53,740	53,740	-
75,040	75,049	9	-	-	-	-	-	-
2,334,820	2,334,928	108	44,870	46,608	1,738	99,440	99,998	558
1,601,090	1,601,060	30	150,000	150,000	-	155,000	155,000	-
616,090	614,484	1,606	34,020	34,018	2	43,960	43,955	5
660	656	4	-	-	-	-	-	-
2,217,840	2,216,200	1,640	184,020	184,018	2	198,960	198,955	5
116,980	118,728	1,748	(139,150)	(137,410)	1,740	(99,520)	(98,957)	563
554,608	554,608	-	731,935	731,935	-	581,205	581,205	-
\$ 671,588	\$ 673,336	\$ 1,748	\$ 592,785	\$ 594,525	\$ 1,740	\$ 481,685	\$ 482,248	\$ 563

(Continued on next page)

City of Rochester Hills, Michigan

	OPC Building Bond 2001 Series			Refunding General Obligation Bond Series		
	Amended		Variance with	Amended		Variance with
	Budget	Actual	Amended Budget	Budget	Actual	Amended Budget
Revenue						
Property taxes	\$ 735,950	\$ 735,911	\$ (39)	\$ 185,510	\$ 185,512	\$ 2
Investment earnings	17,500	18,010	510	12,000	12,942	942
Special assessments	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total revenue	753,450	753,921	471	197,510	198,454	944
Expenditures						
Principal retirement	350,000	350,000	-	30,000	30,000	-
Interest and fiscal charges	385,410	385,400	10	156,830	156,825	5
Miscellaneous	170	164	6	70	67	3
Total expenditures	735,580	735,564	16	186,900	186,892	8
Excess of Revenue Over (Under) Expenditures	17,870	18,357	487	10,610	11,562	952
Fund Balances - Beginning of year	142,301	142,301	-	172,506	172,506	-
Fund Balances - End of year	<u>\$ 160,171</u>	<u>\$ 160,658</u>	<u>\$ 487</u>	<u>\$ 183,116</u>	<u>\$ 184,068</u>	<u>\$ 952</u>

Debt Service Funds
Combining Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Amended Budget and Actual
Nonmajor Governmental Budgeted Funds (Continued)
Year Ended December 31, 2006

Refunding Bond Series 2002			Municipal Building Bond Series 2002			Local Road Improvement 2002		
Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget
\$ 1,202,850	\$ 1,202,905	\$ 55	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
70,000	68,186	(1,814)	1,700	1,776	76	110,000	110,048	48
-	-	-	-	-	-	-	-	-
-	-	-	679,610	679,610	-	137,990	137,990	-
-	-	-	-	-	-	-	-	-
1,272,850	1,271,091	(1,759)	681,310	681,386	76	247,990	248,038	48
1,275,000	1,275,000	-	300,000	300,000	-	200,000	200,000	-
116,980	116,975	5	380,010	380,000	10	166,400	166,388	12
480	472	8	-	-	-	-	-	-
1,392,460	1,392,447	13	680,010	680,000	10	366,400	366,388	12
(119,610)	(121,356)	(1,746)	1,300	1,386	86	(118,410)	(118,350)	60
553,452	553,452	-	35,813	35,813	-	2,270,963	2,270,963	-
<u>\$ 433,842</u>	<u>\$ 432,096</u>	<u>\$ (1,746)</u>	<u>\$ 37,113</u>	<u>\$ 37,199</u>	<u>\$ 86</u>	<u>\$ 2,152,553</u>	<u>\$ 2,152,613</u>	<u>\$ 60</u>

(Continued on next page)

City of Rochester Hills, Michigan

Debt Service Funds

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Amended Budget and Actual Nonmajor Governmental Budgeted Funds (Continued) Year Ended December 31, 2006

	Total		
	Amended Budget	Actual	Variance with Amended Budget
Revenue			
Property taxes	\$ 4,332,090	\$ 4,331,851	\$ (239)
Investment earnings	441,200	444,004	2,804
Special assessments	61,550	62,977	1,427
Transfers in	1,020,420	1,020,420	-
Other	75,040	75,049	9
Total revenue	5,930,300	5,934,301	4,001
Expenditures			
Principal retirement	4,286,090	4,286,060	30
Interest and fiscal charges	2,078,820	2,077,158	1,662
Miscellaneous	1,380	1,359	21
Total expenditures	6,366,290	6,364,577	1,713
Excess of Revenue Over (Under) Expenditures	(435,990)	(430,276)	5,714
Fund Balances - Beginning of year	6,999,896	6,999,896	-
Fund Balances - End of year	<u>\$ 6,563,906</u>	<u>\$ 6,569,620</u>	<u>\$ 5,714</u>

Nonmajor Capital Projects Funds

Capital Projects Funds account for the purchase or construction of major capital facilities that are not financed by proprietary funds.

Capital Improvement Fund - This fund accounts for the capital purchases and construction by the City. Revenue is transferred from other City funds, or generated via grants or bond proceeds. Expenditures incurred for the purchases or development are recorded in this fund.

Pedestrian Pathway Construction Fund - This fund accounts for monies received and expended in connection with the Series 1982 General Obligation Bond issuance for the purpose of constructing pedestrian pathways.

Capital Fire Fund - This fund accounts for the purchase and replacement of major fire department capital items.

City of Rochester Hills, Michigan

Capital Projects Funds Combining Balance Sheet Nonmajor Governmental Funds December 31, 2006

	Capital Improvement Fund	Pedestrian Pathway Construction Fund	Capital Fire Fund	Total Nonmajor Capital Project Funds
Assets				
Cash and investments	\$ 2,810,182	\$ 2,441,941	\$ 7,880,732	\$ 13,132,855
Receivables - Accrued interest	14,711	33,659	99,568	147,938
Total assets	<u>\$ 2,824,893</u>	<u>\$ 2,475,600</u>	<u>\$ 7,980,300</u>	<u>\$ 13,280,793</u>
Liabilities and Fund Balances				
Liabilities - Accounts payable	\$ 224	\$ 5,804	\$ -	\$ 6,028
Fund Balances				
Unreserved, designated for subsequent year's budget	-	186,830	89,310	276,140
Unreserved/Undesignated	<u>2,824,669</u>	<u>2,282,966</u>	<u>7,890,990</u>	<u>12,998,625</u>
Total fund balances	<u>2,824,669</u>	<u>2,469,796</u>	<u>7,980,300</u>	<u>13,274,765</u>
Total liabilities and fund balances	<u>\$ 2,824,893</u>	<u>\$ 2,475,600</u>	<u>\$ 7,980,300</u>	<u>\$ 13,280,793</u>

City of Rochester Hills, Michigan

Capital Projects Funds Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended December 31, 2006

	Capital Improvement Fund	Pedestrian Pathway Construction Fund	Capital Fire Fund	Total Nonmajor Capital Project Funds
Revenue				
Charge for services	\$ -	\$ 115	\$ -	\$ 115
Investment earnings	104,741	122,016	316,072	542,829
Other	-	3,790	6,008	9,798
Total revenue	104,741	125,921	322,080	552,742
Expenditures - Capital outlay	20,796	215,551	64,026	300,373
Excess of Revenue Over (Under) Expenditures	83,945	(89,630)	258,054	252,369
Other Financing Sources (Uses)				
Transfers in	910,670	246,800	1,803,920	2,961,390
Transfers out	(400,330)	-	-	(400,330)
Total other financing sources (uses)	510,340	246,800	1,803,920	2,561,060
Net Change in Fund Balance	594,285	157,170	2,061,974	2,813,429
Fund Balances - Beginning of year	2,230,384	2,312,626	5,918,326	10,461,336
Fund Balances - End of year	<u>\$ 2,824,669</u>	<u>\$ 2,469,796</u>	<u>\$ 7,980,300</u>	<u>\$ 13,274,765</u>

City of Rochester Hills, Michigan

	Capital Improvement Fund			Pedestrian Pathway Construction Fund		
	Amended		Variance with	Amended		Variance with
	Budget	Actual	Amended	Budget	Actual	Amended
			Budget			Budget
Revenue						
Charge for services	\$ -	\$ -	\$ -	\$ 800	\$ 115	\$ (685)
Investment earnings	101,620	104,741	3,121	117,000	122,016	5,016
Transfers in	910,670	910,670	-	246,800	246,800	-
Other	-	-	-	3,790	3,790	-
Total revenue	1,012,290	1,015,411	3,121	368,390	372,721	4,331
Expenditures						
Capital outlay	28,810	20,796	8,014	217,020	215,551	1,469
Transfers out	400,330	400,330	-	-	-	-
Total expenditures	429,140	421,126	8,014	217,020	215,551	1,469
Excess of Revenue Over Expenditures	583,150	594,285	11,135	151,370	157,170	5,800
Fund Balances - Beginning of year	2,230,384	2,230,384	-	2,312,626	2,312,626	-
Fund Balances - End of year	\$ 2,813,534	\$ 2,824,669	\$ 11,135	\$ 2,463,996	\$ 2,469,796	\$ 5,800

Capital Projects Funds
Combining Schedule of Revenue, Expenditures, and
Changes in Fund Balances - Amended Budget and Actual
Nonmajor Governmental Budgeted Funds
Year Ended December 31, 2006

Capital Fire Fund			Total		
Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget
\$ -	\$ -	\$ -	\$ 800	\$ 115	\$ (685)
296,000	316,072	20,072	514,620	542,829	28,209
1,803,910	1,803,920	10	2,961,380	2,961,390	10
<u>4,910</u>	<u>6,008</u>	<u>1,098</u>	<u>8,700</u>	<u>9,798</u>	<u>1,098</u>
2,104,820	2,126,000	21,180	3,485,500	3,514,132	28,632
64,110	64,026	84	309,940	300,373	9,567
<u>-</u>	<u>-</u>	<u>-</u>	<u>400,330</u>	<u>400,330</u>	<u>-</u>
<u>64,110</u>	<u>64,026</u>	<u>84</u>	<u>710,270</u>	<u>700,703</u>	<u>9,567</u>
2,040,710	2,061,974	21,264	2,775,230	2,813,429	38,199
<u>5,918,326</u>	<u>5,918,326</u>	<u>-</u>	<u>10,461,336</u>	<u>10,461,336</u>	<u>-</u>
<u>\$ 7,959,036</u>	<u>\$ 7,980,300</u>	<u>\$ 21,264</u>	<u>\$ 13,236,566</u>	<u>\$ 13,274,765</u>	<u>\$ 38,199</u>

Internal Service Funds

Internal Service Funds account for the financing of goods or services provided by one City department or agency to other departments or agencies primarily on a cost-reimbursed basis.

Building and Grounds Fund - This fund accounts for the costs of operating and maintaining the land and buildings of the City, excluding the water and sewer building.

Management Information Systems Fund - This fund accounts for the costs of data processing services provided to various City departments. The actual cost of materials and services is reimbursed to this fund by the user departments.

Fleet Equipment Fund - This fund accounts for the costs of acquiring and maintaining City-operated vehicles used by various City departments. The actual cost of labor and materials is reimbursed to this fund by the user departments.

Insurance Fund - This fund accounts for the City's self-insured premium payments for general liability, fleet, and property insurance. Recorded in this fund are the reserves and the estimated IBNR liability.

City of Rochester Hills, Michigan

Internal Service Funds Combining Statement of Net Assets December 31, 2006

	Building and Grounds Fund	Management Information Systems Fund	Fleet Equipment Fund	Insurance Fund	Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 1,583,109	\$ 294,796	\$ 1,261,902	\$ 638,228	\$ 3,778,035
Investments	5,708,822	2,624,460	3,565,560	-	11,898,842
Accrued interest receivable	53,443	32,924	34,704	-	121,071
Other	9,514	-	-	164,125	173,639
Total current assets	7,354,888	2,952,180	4,862,166	802,353	15,971,587
Restricted assets - Assets held at County	1,519	-	-	-	1,519
Property, Plant, and Equipment					
Land	17,726,940	-	-	-	17,726,940
Land improvements	3,812,826	-	-	-	3,812,826
Building	28,842,905	-	-	-	28,842,905
Furniture	1,750,200	3,504,088	-	-	5,254,288
Machinery and equipment	676,212	-	2,127,268	-	2,803,480
Vehicles	-	-	4,807,803	-	4,807,803
Total property, plant, and equipment	52,809,083	3,504,088	6,935,071	-	63,248,242
Less accumulated depreciation	(10,558,238)	(2,771,561)	(4,671,579)	-	(18,001,378)
Net property, plant, and equipment	42,250,845	732,527	2,263,492	-	45,246,864
Total assets	49,607,252	3,684,707	7,125,658	802,353	61,219,970
Liabilities					
Current liabilities:					
Accounts payable	141,072	10,613	29,027	-	180,712
Retainage payable	750	-	-	-	750
Accrued wages	7,718	10,033	8,175	-	25,926
Accrued vacation	17,621	54,416	37,537	-	109,574
Accrued annual leave	13,640	25,502	14,981	-	54,123
Payable related to capital lease obligations:					
Current portion of capital lease obligations	200,000	-	-	-	200,000
Accrued interest	61,696	-	-	-	61,696
Other liabilities	581	740	617	239,790	241,728
Total current liabilities	443,078	101,304	90,337	239,790	874,509
Long-term Liabilities - Obligations under capital lease - Less current portion					
	3,430,000	-	-	-	3,430,000
Total liabilities	3,873,078	101,304	90,337	239,790	4,304,509
Net Assets					
Invested in capital assets - Net of related debt	38,622,364	732,527	2,263,492	-	41,618,383
Unrestricted	7,111,810	2,850,876	4,771,829	562,563	15,297,078
Total net assets	\$ 45,734,174	\$ 3,583,403	\$ 7,035,321	\$ 562,563	\$ 56,915,461

City of Rochester Hills, Michigan

Internal Service Funds Combining Statement of Revenues, Expenses, and Changes in Net Assets Year Ended December 31, 2006

	Building and Grounds Fund	Management Information Systems Fund	Fleet Equipment Fund	Insurance Fund	Total
Operating Revenue					
Charges for services	\$ 2,649,820	\$ 1,104,380	\$ 2,016,646	\$ 676,970	\$ 6,447,816
Miscellaneous revenue	12,323	4,613	7,050	40,343	64,329
Total operating revenue	2,662,143	1,108,993	2,023,696	717,313	6,512,145
Operating Expenses					
Salaries and wages	601,585	759,162	639,220	-	1,999,967
Public utilities	637,064	-	-	-	637,064
Professional services	780,416	238,517	282,237	525,430	1,826,600
Materials and supplies	93,071	54,177	17,253	-	164,501
Repairs and maintenance	176,629	182,062	374,922	-	733,613
Rentals	1,252	-	15,548	-	16,800
Depreciation and amortization	1,575,738	398,983	585,508	-	2,560,229
Total operating expenses	3,865,755	1,632,901	1,914,688	525,430	7,938,774
Operating Income (Loss)	(1,203,612)	(523,908)	109,008	191,883	(1,426,629)
Nonoperating Revenues (Expenses)					
Investment earnings	481,994	174,104	225,088	38,409	919,595
Net change in fair value of investments	10,065	-	1,843	-	11,908
Interest expense	(169,963)	-	-	-	(169,963)
Gain (loss) on sale of assets	(151,816)	616	74,195	-	(77,005)
Total nonoperating revenues	170,280	174,720	301,126	38,409	684,535
Income (Loss) - Before transfers	(1,033,332)	(349,188)	410,134	230,292	(742,094)
Transfers from (to) Other Funds	954,780	175,000	(53,500)	-	1,076,280
Net Income (Loss)	(78,552)	(174,188)	356,634	230,292	334,186
Net Assets - Beginning of year	45,812,726	3,757,591	6,678,687	332,271	56,581,275
Net Assets - End of year	\$ 45,734,174	\$ 3,583,403	\$ 7,035,321	\$ 562,563	\$ 56,915,461

City of Rochester Hills, Michigan

Internal Service Funds Combining Statement of Cash Flows Year Ended December 31, 2006

	Building and Grounds Fund	Management Information Systems Fund	Fleet Equipment Fund	Insurance Fund	Total
Cash Flows from Operating Activities					
Cash received from customers	\$ 2,649,820	\$ 1,104,380	\$ 2,016,646	\$ 676,970	\$ 6,447,816
Cash payments for goods and services	(1,822,580)	(483,314)	(667,381)	(735,537)	(3,708,812)
Cash payments to employees	(599,161)	(737,950)	(637,374)	-	(1,974,485)
Other operating revenue	12,323	4,613	7,050	40,343	64,329
Net cash provided by (used in) operating activities	240,402	(112,271)	718,941	(18,224)	828,848
Cash Flows from Noncapital Financing Activities					
Transfers in from (out to) other funds	954,780	175,000	(53,500)	-	1,076,280
Repayments from (borrowings from) other funds	(970)	-	29,502	-	28,532
Net cash provided by (used in) noncapital financing activities	953,810	175,000	(23,998)	-	1,104,812
Cash Flows from Capital and Related Financing Activities					
Proceeds from sale of capital assets	163	616	76,703	-	77,482
Payment for capital acquisitions	(332,423)	(856,164)	(474,343)	-	(1,662,930)
Principal payments	(200,000)	-	-	-	(200,000)
Interest paid	(131,595)	-	-	-	(131,595)
Net cash used in capital and related financing activities	(663,855)	(855,548)	(397,640)	-	(1,917,043)
Cash Flows from Investing Activities					
Purchase of investment securities	(12,649,858)	(6,797,105)	(8,649,745)	-	(28,096,708)
Proceeds from maturities of investment securities	11,638,115	6,690,905	7,560,517	-	25,889,537
Receipts of interest and dividends	351,883	171,992	212,424	38,409	774,708
Net cash provided by (used in) investing activities	(659,860)	65,792	(876,804)	38,409	(1,432,463)
Net Increase (Decrease) in Cash and Cash Equivalents	(129,503)	(727,027)	(579,501)	20,185	(1,415,846)
Cash and Cash Equivalents - January 1, 2006	1,712,612	1,021,823	1,841,403	618,043	5,193,881
Cash and Cash Equivalents - December 31, 2006	<u>\$ 1,583,109</u>	<u>\$ 294,796</u>	<u>\$ 1,261,902</u>	<u>\$ 638,228</u>	<u>\$ 3,778,035</u>

City of Rochester Hills, Michigan

Internal Service Funds Combining Statement of Cash Flows (Continued) Year Ended December 31, 2006

	Building and Grounds Fund	Management Information Systems Fund	Fleet Equipment Fund	Insurance Fund	Total
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities					
Operating income (loss)	\$ (1,203,612)	\$ (523,908)	\$ 109,008	\$ 191,883	\$ (1,426,629)
Adjustments to reconcile operating income (loss) to net cash from operating activities - Changes in assets and liabilities:					
Depreciation expense	1,575,738	398,983	585,508	-	2,560,229
Decrease (increase) in other assets	14,270	-	-	(164,125)	(149,855)
Increase (decrease) in accounts payable and other accrued expenses	<u>(145,994)</u>	<u>12,654</u>	<u>24,425</u>	<u>(45,982)</u>	<u>(154,897)</u>
Total adjustments	<u>1,444,014</u>	<u>411,637</u>	<u>609,933</u>	<u>(210,107)</u>	<u>2,255,477</u>
Net cash provided by (used in) operating activities	<u>\$ 240,402</u>	<u>\$ (112,271)</u>	<u>\$ 718,941</u>	<u>\$ (18,224)</u>	<u>\$ 828,848</u>

Fiduciary Funds

Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or funds. Agency Funds, which are custodial in nature (assets equal liabilities), do not involve measurement of results of operations.

Agency Funds

Trust and Agency Fund - This fund accounts for advance tax payments, delinquent taxes, and licensing recorded here until received and/or disbursed.

Tax Collection Fund - This fund accounts for the collection and distribution of current City tax levies.

Payroll Fund - This fund accounts for monies aggregated for payroll and payroll-related liabilities.

City of Rochester Hills, Michigan

Fiduciary Funds - Agency Funds Combining Statement of Assets and Liabilities December 31, 2006

	Trust and Agency Fund	Tax Collection Fund	Payroll Fund	Total
Assets - Cash and investments	<u>\$ 9,725</u>	<u>\$ 6,955,591</u>	<u>\$ 109,319</u>	<u>\$ 7,074,635</u>
Liabilities				
Accounts payable	\$ -	\$ -	\$ 38,849	\$ 38,849
Due to other governmental units	9,725	6,883,228	70,470	6,963,423
Accrued and other liabilities	<u>-</u>	<u>72,363</u>	<u>-</u>	<u>72,363</u>
Total liabilities	<u>\$ 9,725</u>	<u>\$ 6,955,591</u>	<u>\$ 109,319</u>	<u>\$ 7,074,635</u>

City of Rochester Hills, Michigan

Fiduciary Funds - Agency Funds Combining Statement of Changes in Assets and Liabilities Year Ended December 31, 2006

	Balance January 1, 2006	Additions	Deductions	Balance December 31, 2006
<u>Trust and Agency Fund</u>				
Assets - Cash	<u>\$ 87,255</u>	<u>\$ 1,664,008</u>	<u>\$ 1,741,538</u>	<u>\$ 9,725</u>
Liabilities				
Accounts payable	\$ -	\$ 281,153	\$ 281,153	\$ -
Due to other governmental units	<u>87,255</u>	<u>1,813,125</u>	<u>1,890,655</u>	<u>9,725</u>
Total liabilities	<u>\$ 87,255</u>	<u>\$ 2,094,278</u>	<u>\$ 2,171,808</u>	<u>\$ 9,725</u>
<u>Tax Collection Fund</u>				
Assets - Cash	<u>\$ 2,877,261</u>	<u>\$ 127,697,944</u>	<u>\$ 123,619,614</u>	<u>\$ 6,955,591</u>
Liabilities				
Accounts payable	\$ -	\$ 30,333	\$ 30,333	\$ -
Due to other governmental/component units	2,870,824	6,898,034	2,885,630	6,883,228
Other liabilities	<u>6,437</u>	<u>253,311</u>	<u>187,385</u>	<u>72,363</u>
Total liabilities	<u>\$ 2,877,261</u>	<u>\$ 7,181,678</u>	<u>\$ 3,103,348</u>	<u>\$ 6,955,591</u>
<u>Payroll Fund</u>				
Assets				
Cash	\$ 40,381	\$ 18,244,532	\$ 18,175,594	\$ 109,319
Other assets	<u>-</u>	<u>66,193</u>	<u>66,193</u>	<u>-</u>
Total assets	<u>\$ 40,381</u>	<u>\$ 18,310,725</u>	<u>\$ 18,241,787</u>	<u>\$ 109,319</u>
Liabilities				
Accounts payable	\$ 38,239	\$ 2,016,968	\$ 2,016,358	\$ 38,849
Due to other governmental/component units	<u>2,142</u>	<u>3,977,453</u>	<u>3,909,125</u>	<u>70,470</u>
Total liabilities	<u>\$ 40,381</u>	<u>\$ 5,994,421</u>	<u>\$ 5,925,483</u>	<u>\$ 109,319</u>

Statistical Section

This part of the Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplemental information says about the City's overall financial health.

The statistical section is organized into the following main categories:

- Financial trends
- Revenue capacity
- Debt capacity
- Demographic and economic information
- Operating information

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB Statement No. 34 in 2003; schedules presenting government-wide information include information beginning in that year.

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time

City of Rochester Hills, Michigan

Financial Trend Information Net Assets by Component

	Fiscal Year			
	2003	2004	2005	2006
Governmental Activities				
Invested in capital assets - Net				
of related debt	\$ 102,143,868	\$ 104,547,003	\$ 110,689,829	\$ 114,283,971
Restricted	39,330,766	40,857,866	44,263,028	49,911,176
Unrestricted	<u>11,314,980</u>	<u>13,463,681</u>	<u>19,576,062</u>	<u>20,562,505</u>
Total net assets	152,789,614	158,868,550	174,528,919	184,757,652
Business-type Activities				
Invested in capital assets - Net				
of related debt	101,977,631	102,001,742	102,222,247	103,730,294
Restricted	-	1,194,588	-	-
Unrestricted	<u>16,011,681</u>	<u>16,670,263</u>	<u>19,971,163</u>	<u>21,865,974</u>
Total net assets	117,989,312	119,866,593	122,193,410	125,596,268
Primary Government in Total				
Invested in capital assets - Net				
of related debt	204,121,499	206,548,745	212,912,076	218,014,265
Restricted	39,330,766	42,052,454	44,263,028	49,911,176
Unrestricted	<u>27,326,661</u>	<u>30,133,944</u>	<u>39,547,225</u>	<u>42,428,479</u>
Total net assets	<u>\$ 270,778,926</u>	<u>\$ 278,735,143</u>	<u>\$ 296,722,329</u>	<u>\$ 310,353,920</u>

City of Rochester Hills, Michigan

Financial Trend Information Changes in Governmental Net Assets

	Fiscal Year				
	2002	2003	2004	2005	2006
Expenses					
General government	\$ 5,534,357	\$ 5,315,958	\$ 6,536,790	\$ 4,682,613	\$ 6,299,416
Public works	10,561,451	11,821,075	10,202,863	10,077,715	10,138,213
Public safety	13,230,077	12,454,832	15,209,176	15,572,006	16,632,031
Community and economic development	1,031,855	1,122,233	1,408,730	1,321,727	1,153,060
Recreation and culture	4,321,750	10,811,594	4,368,573	4,478,326	4,744,567
Interest on long-term debt	3,228,504	2,756,725	2,412,476	2,383,866	2,231,178
Total expenses	37,907,994	44,282,417	40,138,608	38,516,253	41,198,465
Program Revenues					
Charges for services:					
General government	158,577	162,091	174,428	210,223	171,991
Public works	325,160	300,572	623,368	494,101	360,254
Public safety	2,672,243	3,377,608	3,961,344	3,703,136	3,453,260
Community and economic development	88,594	237,043	385,776	198,384	204,898
Recreation and culture	584,878	545,082	499,698	636,928	604,141
Total charges for services	3,829,452	4,622,396	5,644,614	5,242,772	4,794,544
Operating grants and contributions	5,014,149	4,574,716	4,706,356	4,468,171	4,721,131
Capital grants and contributions	3,976,627	3,853,788	1,917,810	6,162,297	2,450,364
Total program revenues	12,820,228	13,050,900	12,268,780	15,873,240	11,966,039
Net Expense	(25,087,766)	(31,231,517)	(27,869,828)	(22,643,013)	(29,232,426)
General Revenues					
Property taxes	23,569,820	24,461,796	26,077,515	27,492,422	29,985,752
State-shared revenues	7,367,745	5,712,210	5,443,641	5,395,634	5,341,983
Unrestricted investment earnings	1,469,179	918,270	944,204	2,618,951	4,900,644
Cable franchise fees	569,576	551,341	660,039	647,350	968,467
Miscellaneous	480,720	602,605	823,365	1,031,921	619,505
Gain on sale of capital assets	94,061	-	-	1,118,104	87,108
Total general revenues	33,551,101	32,246,222	33,948,764	38,304,382	41,903,459
Extraordinary Item - Consent judgement	-	-	-	-	(2,443,300)
Change in Net Assets	\$ 8,463,335	\$ 1,014,705	\$ 6,078,936	\$ 15,661,369	\$ 10,227,733

City of Rochester Hills, Michigan

Financial Trend Information Changes in Business-type Net Assets

	Fiscal Year				
	2002	2003	2004	2005	2006
Operating Revenue					
Operating revenue	\$15,780,106	\$17,724,657	\$17,757,308	\$20,491,443	\$21,322,242
Other charges for services	33,628	19,540	39,981	24,986	35,073
Total operating revenue	15,813,734	17,744,197	17,797,289	20,516,429	21,357,315
Operating Expenses					
Cost of water produced/purchased	5,656,469	6,222,278	6,203,605	7,506,554	7,343,822
Cost of sewage treatment	4,314,377	4,782,187	4,540,926	4,771,632	5,112,044
Other operation and maintenance costs	4,374,080	3,623,666	2,901,235	4,386,334	3,610,284
Administrative costs (salaries)	2,120,370	2,408,632	2,790,508	3,290,765	3,289,221
Depreciation	2,844,562	2,869,706	3,253,598	3,106,866	3,354,716
Total operating expenses	19,309,858	19,906,469	19,689,872	23,062,151	22,710,087
Operating Loss	(3,496,124)	(2,162,272)	(1,892,583)	(2,545,722)	(1,352,772)
Nonoperating Revenue (Expenses)					
Unrestricted investment earnings	704,283	373,066	248,495	517,710	972,934
Interest expense	(172,125)	(34,264)	-	-	-
Gain (loss) on disposal of assets	(9,261)	(123,281)	(3,258)	480,792	542
Total nonoperating revenue	522,897	215,521	245,237	998,502	973,476
Capital Contributions	1,369,672	1,298,935	1,463,634	1,455,048	999,985
Lines Constructed by Developers	1,809,498	716,477	2,060,993	2,418,989	2,782,169
Total capital contributions	3,179,170	2,015,412	3,524,627	3,874,037	3,782,154
Change in Net Assets	\$ 205,943	\$ 68,661	\$ 1,877,281	\$ 2,326,817	\$ 3,402,858

City of Rochester Hills, Michigan

Financial Trend Information Fund Balances of Governmental Funds

	2002	2003	2004	2005	2006
General Fund					
Reserved	\$ -	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 3,443,300
Unreserved	<u>9,688,876</u>	<u>9,577,617</u>	<u>9,465,241</u>	<u>10,964,303</u>	<u>10,136,148</u>
Total General Fund	9,688,876	10,577,617	10,465,241	11,964,303	13,579,448
All Other Governmental Funds					
Reserved	351,195	566,488	177,356	44,097	60,563
Unreserved, reported in:					
Special Revenue Funds	24,871,827	24,082,029	26,446,516	29,027,766	32,830,897
Debt Service Funds	3,722,903	3,746,922	6,749,421	6,999,896	6,569,620
Capital Project Funds	<u>24,489,950</u>	<u>12,103,723</u>	<u>8,968,239</u>	<u>10,461,338</u>	<u>13,274,765</u>
Total all governmental funds	<u>\$ 63,124,751</u>	<u>\$ 51,076,779</u>	<u>\$ 52,806,773</u>	<u>\$ 58,497,400</u>	<u>\$ 66,315,293</u>

City of Rochester Hills, Michigan

Financial Trend Information Changes in Fund Balances of Governmental Funds

	2002	2003	2004	2005	2006
Revenue					
Property taxes	\$ 23,569,820	\$ 24,461,796	\$ 26,077,515	\$ 27,492,422	\$ 29,985,752
Licenses and permits	2,020,444	2,060,010	2,379,571	1,929,475	2,085,161
Federal grants	206,429	407,022	436,595	271,076	196,306
State-shared revenues and grants	10,382,568	10,342,521	10,008,449	9,805,835	9,720,235
Other governmental revenues	269,123	205,265	244,079	260,660	271,548
Charges for services	4,902,224	5,596,345	5,860,708	6,974,473	6,365,265
Fines and forfeitures	475,074	547,780	520,485	575,901	446,243
Interest earnings	1,812,564	1,015,918	879,770	2,226,383	4,003,059
Other	1,630,246	1,848,796	385,795	1,410,503	471,312
Total revenue	45,268,492	46,485,453	46,792,967	50,946,728	53,544,881
Expenditures					
Current:					
General government	7,863,728	6,735,682	6,941,792	7,149,633	6,747,880
Public works	1,509,771	1,746,720	1,701,092	2,527,976	2,298,684
Public safety	13,286,384	13,959,215	15,036,185	15,695,576	16,599,439
Community and economic development	-	1,099,351	1,401,921	1,325,230	1,144,244
Streets	5,287,024	4,810,972	3,907,165	2,764,324	3,294,116
Recreation and culture	4,060,889	4,298,932	4,033,302	4,315,311	4,691,740
Capital outlay	15,392,464	20,175,677	3,815,752	5,253,484	3,510,025
Debt service	5,693,159	6,481,359	6,692,815	6,689,119	6,364,577
Total expenditures	53,093,419	59,307,908	43,530,024	45,720,653	44,650,705
Excess of Revenue Over (Under)					
Expenditures	(7,824,927)	(12,822,455)	3,262,943	5,226,075	8,894,176
Other Financing Sources (Uses)					
Debt issuance	21,508,992	2,810,626	1,120,000	3,235,000	-
Debt premium or discount	-	-	8,917	-	-
Sale of fixed assets	-	65,316	46,952	38,401	-
Transfers in	25,515,334	13,491,801	14,297,368	9,949,344	10,208,696
Transfers out	(24,768,756)	(14,960,815)	(15,915,610)	(12,758,196)	(11,284,976)
Payment to refund bond escrow agent	(7,313,934)	(2,741,603)	(1,090,576)	-	-
Total other financing sources (uses)	14,941,636	(1,334,675)	(1,532,949)	464,549	(1,076,280)
Net Change in Fund Balances	7,116,709	(14,157,130)	1,729,994	5,690,624	7,817,896
Fund Balances - Beginning of year	58,117,200	65,233,909	51,076,779	52,806,773	58,497,397
Fund Balances - End of year	\$ 65,233,909	\$ 51,076,779	\$ 52,806,773	\$ 58,497,397	\$ 66,315,293

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax

City of Rochester Hills, Michigan

Revenue Capacity Information Taxable Value and Actual Value of Taxable Property

Tax Year	Taxable Value by Property Type					Tax Rate (Mills)	Estimated Actual Value	Taxable Value as a Percentage of Actual
	Residential	Commercial	Industrial	Personal Property	Total Value			
1997	\$1,605,946,432	\$265,798,030	\$150,203,650	\$198,655,370	\$2,220,603,482	8.2003	\$4,627,359,000	47.99%
1998	1,703,860,342	290,536,850	161,938,560	218,228,160	2,374,563,912	8.2003	5,084,351,900	46.70%
1999	1,799,178,214	298,155,930	170,201,090	228,085,700	2,495,620,934	9.1498	5,540,792,800	45.04%
2000	1,893,354,856	311,774,100	173,950,870	227,579,800	2,606,659,626	9.1498	5,933,598,420	43.93%
2001	2,020,107,840	330,144,480	180,596,730	227,393,630	2,758,242,680	9.3681	6,357,556,220	43.39%
2002	2,149,339,990	340,664,350	204,236,040	216,081,110	2,910,321,490	9.3681	6,820,348,980	42.67%
2003	2,268,429,800	393,431,720	197,006,740	205,993,980	3,064,862,240	9.3681	7,284,097,520	42.08%
2004	2,415,192,410	409,780,590	201,887,100	203,963,970	3,230,824,070	9.3681	7,654,823,720	42.21%
2005	2,573,882,270	440,887,010	199,880,260	187,326,370	3,401,975,910	9.6681	8,024,712,900	42.39%
2006	2,720,759,290	478,220,740	202,502,370	200,536,560	3,602,018,960	9.7060	8,368,567,980	43.04%

Note: Under Michigan law, the revenue base is referred to as "taxable value." This amount represents assessed value (50% of true cash value), limited for each property by the lower of 5% or inflation.

Taxes levied in a particular "tax year" become revenue of the subsequent fiscal year.

City of Rochester Hills, Michigan

Tax Year	Millage Rates - Direct City Taxes				Overlapping Taxes			
	General Operating	Debt	Special Purpose	Total Direct Taxes	Oakland County Operating	Huron/Clinton Metro Authority	County Parks	Oakland Community College
1997:								
Homestead	1.8303	4.7864	1.5836	8.2003	4.3505	0.2236	0.2439	1.6522
Nonhomestead	1.8303	4.7864	1.5836	8.2003	4.3505	0.2236	0.2439	1.6522
1998:								
Homestead	1.6579	5.0618	1.4806	8.2003	4.1900	0.2235	0.2429	1.6456
Nonhomestead	1.6579	5.0618	1.4806	8.2003	4.1900	0.2235	0.2429	1.6456
1999:								
Homestead	2.6602	5.1755	1.3141	9.1498	4.1900	0.2218	0.2404	1.6295
Nonhomestead	2.6602	5.1755	1.3141	9.1498	4.1900	0.2218	0.2404	1.6295
2000:								
Homestead	2.7267	5.0098	1.4133	9.1498	4.1900	0.2202	0.2376	1.6109
Nonhomestead	2.7267	5.0098	1.4133	9.1498	4.1900	0.2202	0.2376	1.6109
2001:								
Homestead	2.8277	4.9982	1.5422	9.3681	4.1900	0.2186	0.2352	1.5952
Nonhomestead	2.8277	4.9982	1.5422	9.3681	4.1900	0.2186	0.2352	1.5952
2002:								
Homestead	2.9188	5.0136	1.4357	9.3681	4.1900	0.2170	0.2453	1.6090
Nonhomestead	2.9188	5.0136	1.4357	9.3681	4.1900	0.2170	0.2453	1.6090
2003:								
Homestead	3.0850	4.9673	1.3158	9.3681	4.1900	0.2161	0.2436	1.5983
Nonhomestead	3.0850	4.9673	1.3158	9.3681	4.1900	0.2161	0.2436	1.5983
2004:								
Homestead	3.1130	4.9339	1.3212	9.3681	4.1900	0.2154	0.2422	1.5889
Nonhomestead	3.1130	4.9339	1.3212	9.3681	4.1900	0.2154	0.2422	1.5889
2005:								
Homestead	3.2169	5.1809	1.2703	9.6681	4.1900	0.2146	0.2415	1.5844
Nonhomestead	3.2169	5.1809	1.2703	9.6681	4.1900	0.2146	0.2415	1.5844
2006:								
Homestead	3.7220	4.7980	1.1860	9.7060	4.1900	0.2146	0.2415	1.5844
Nonhomestead	3.7220	4.7980	1.1860	9.7060	4.1900	0.2146	0.2415	1.5844

Note: Michigan law restricts the maximum millage that may be levied by the City without a vote of our residents, as follows:

	General Operating	Debt	Special Purpose
2006	4	No limit	5

Revenue Capacity Information Direct and Overlapping Property Tax Rates

Overlapping Taxes										Total Direct and Overlapping Rates by Resident's School District	
Rochester Community School District					Avondale School District						
Oakland Intermediate School District	State Education Tax	Operating	Supplemental	Debt	State Education Tax	Operating	Supplemental	Sinking	Rochester Community Schools	Avondale Schools	
2.1294	6.0000	0.0000	0.0000	5.9000	6.0000	0.0000	2.1943	0.0000	24.3835	24.4484	
2.1294	6.0000	18.0000	0.0000	5.9000	6.0000	18.0000	0.0000	0.0000	42.3835	40.2541	
2.1208	6.0000	0.0000	0.0000	5.6000	6.0000	0.0000	2.0944	0.0000	24.1037	24.0773	
2.1208	6.0000	18.0000	0.0000	5.6000	6.0000	18.0000	0.0000	0.0000	42.1037	39.9829	
2.0998	6.0000	0.0000	0.0000	5.6000	6.0000	0.0000	1.9225	0.0000	24.8454	24.6681	
2.0998	6.0000	18.0000	0.0000	5.6000	6.0000	18.0000	0.0000	0.0000	42.8454	40.7456	
2.0752	6.0000	0.0000	0.0000	5.6000	6.0000	0.0000	1.8190	0.0000	24.8970	24.6408	
2.0752	6.0000	17.6508	0.0000	5.6000	6.0000	18.0000	0.0000	0.0000	42.5478	40.8218	
3.4526	6.0000	0.0000	0.0000	5.2250	6.0000	0.0000	1.7298	0.0000	26.6019	24.8791	
3.4526	6.0000	17.3013	0.0000	5.2250	6.0000	18.0000	0.0000	0.0000	43.9032	41.1493	
3.4224	6.0000	0.0000	0.0000	5.2250	6.0000	0.0000	1.6793	0.0000	26.4875	24.7444	
3.4224	6.0000	18.0000	0.0000	5.2250	6.0000	18.0000	0.0000	0.0000	44.4875	41.0651	
3.3991	5.0000	0.0000	0.0000	5.2250	5.0000	0.0000	1.5965	0.6000	25.3310	24.1284	
3.3991	5.0000	18.0000	0.0000	5.2250	5.0000	18.0000	0.0000	0.6000	43.3310	40.5319	
3.3789	6.0000	0.0000	0.0000	5.1800	6.0000	0.0000	1.4092	0.6000	26.3047	24.9350	
3.3789	6.0000	18.0000	0.0000	5.1800	6.0000	18.0000	0.0000	0.6000	44.3047	41.5258	
3.3690	6.0000	0.0000	0.0000	5.1800	6.0000	0.0000	1.3203	0.5989	26.5379	25.0881	
3.3690	6.0000	18.0000	0.0000	5.1800	6.0000	18.0000	0.0000	0.5989	44.5379	41.7678	
3.3690	6.0000	0.0000	-	5.1800	6.0000	0.0000	1.2503	0.5936	26.4915	24.9664	
3.3690	6.0000	18.0000	-	5.1800	6.0000	18.0000	0.0000	0.5936	44.4915	41.7161	

City of Rochester Hills, Michigan

Revenue Capacity Information Principal Property Taxpayers

Taxpayer	2006			1997		
	2006 Taxable Value	Percentage of Total	2006 Rank	1997 Taxable Value	Percentage of Total	1997 Rank
Meadowbrook Associates	\$ 25,074,090	0.70	1	\$ -	-	-
Detroit Edison	22,130,340	0.61	2	24,326,860	1.10	1
New Plan (Hampton Village Center)	21,600,450	0.60	3	21,663,630	0.98	2
Stuart Frankel	17,415,810	0.48	4	14,203,070	0.64	4
Fanuc Robotics	16,478,150	0.46	5	14,301,180	0.64	3
River Oaks North, LLC (Solomon Property)	15,700,550	0.44	6	-	0.00	-
First Industrial Realty Trust	15,303,130	0.43	7	11,812,110	0.53	7
Associate Estates Realty	13,865,800	0.39	8	11,159,240	0.50	9
Winchester Center LLC	13,472,990	0.37	9	-	0.00	-
Singh Cider Mill Village	12,995,530	0.36	10	-	-	-
Stolaruk Corporation	-	-	-	12,956,190	0.58	5
Consumers Power	-	-	-	11,922,020	0.54	6
Singh Construction	-	-	-	11,187,820	0.50	8
Lectron Projects	-	-	-	11,079,740	0.50	10

Source: City Assessing Department

City of Rochester Hills, Michigan

Revenue Capacity Information Property Tax Levies and Collections

Tax Year	Total Levy	Current Collections	Percent Collected	Delinquent Collections	Total Tax Collections	Percent of Levy Collected
1997	\$ 17,171,306	\$ 16,668,319	97.1	\$ 480,165	\$ 17,148,485	99.9
1998	18,188,720	17,611,336	96.8	600,789	18,212,125	100.0
1999	19,455,388	18,866,963	97.0	616,334	19,483,297	100.0
2000	22,815,043	22,150,477	97.1	631,682	22,782,159	99.9
2001	23,914,509	22,997,740	96.2	772,899	23,770,639	99.4
2002	25,845,403	24,839,899	96.1	861,185	25,701,084	99.4
2003	27,239,989	26,222,382	96.3	879,231	27,101,614	99.5
2004	28,709,347	27,626,606	96.2	969,338	28,595,943	99.6
2005	30,256,675	28,998,137	95.8	1,051,151	30,049,288	99.3
2006	32,875,767	31,774,138	96.6	1,091,374	32,865,512	100.0

Debt Capacity

These schedules contain information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

City of Rochester Hills, Michigan

	1997	1998	1999	2000
Governmental Activities				
General obligation bonds	\$ 19,295,000	\$ 17,100,000	\$ 15,865,000	\$ 14,575,000
County contractual obligations	16,218,703	19,348,214	18,690,291	17,666,105
Special assessment bonds	4,515,000	4,095,000	3,675,000	3,275,000
Capital leases	-	-	-	-
Total	40,028,703	40,543,214	38,230,291	35,516,105
Business-type Activities - General				
obligation bonds	14,537,595	11,808,372	8,977,953	6,893,914
Total debt of the government	<u>\$ 54,566,298</u>	<u>\$ 52,351,586</u>	<u>\$ 47,208,244</u>	<u>\$ 42,410,019</u>
Total taxable value	\$2,220,603,482	\$2,374,563,912	\$2,495,620,934	\$2,606,659,626
Ratio of total debt to taxable value	2.46%	2.20%	1.89%	1.63%
Total population	66,365	68,501	70,400	68,825
Total debt per capita based on taxable value	\$ 822.21	\$ 764.25	\$ 670.57	\$ 616.20

**Debt Capacity Information
Ratios of Outstanding Debt**

2001	2002	2003	2004	2005	2006
\$ 25,355,000	\$ 38,140,000	\$ 35,920,000	\$ 33,425,000	\$ 30,760,000	\$ 28,505,000
16,575,332	15,427,783	14,341,553	13,058,037	14,865,013	13,263,953
5,375,000	4,925,000	4,445,000	3,940,000	3,535,000	3,105,000
-	-	5,025,000	4,850,000	4,650,000	3,630,000
47,305,332	58,492,783	59,731,553	55,273,037	53,810,013	48,503,953
4,684,876	7,500,807	-	-	3,800,000	3,700,000
\$ 51,990,208	\$ 65,993,590	\$ 59,731,553	\$ 55,273,037	\$ 57,610,013	\$ 52,203,953
\$2,758,242,680	\$2,910,321,490	\$3,064,862,240	\$3,230,824,070	\$3,401,975,910	\$3,602,018,960
1.88%	2.27%	1.95%	1.71%	1.69%	1.45%
68,825	68,825	68,825	68,825	68,825	68,825
\$ 755.40	\$ 958.86	\$ 867.88	\$ 803.10	\$ 837.05	\$ 758.50

City of Rochester Hills, Michigan

Debt Capacity Information Ratios of General Bonded Debt Outstanding

Fiscal Year	State Equalization Value	Population	General Bonded Debt Obligation Outstanding (1)	Bonded Debt Obligations Outstanding (2)	General Bonded Debt Obligation Outstanding	Obligation Debt to Taxable Value	General Obligation Debt per Capita
1997	\$ 2,313,679,500	66,365	\$ 16,655,000	\$ 16,218,703	\$ 32,873,703	1.42%	\$ 495.35
1998	2,542,175,950	68,501	14,405,000	19,348,214	33,753,214	1.33%	492.74
1999	2,770,396,400	70,400	13,485,000	18,690,291	32,175,291	1.16%	457.04
2000	2,966,779,210	68,825	12,530,000	17,666,105	30,196,105	1.02%	438.74
2001	3,178,778,110	68,825	22,990,000	16,575,332	39,565,332	1.24%	574.87
2002	3,410,174,490	68,825	35,775,000	15,427,783	51,202,783	1.50%	743.96
2003	3,642,048,760	68,825	33,620,000	19,366,553	52,986,553	1.45%	769.87
2004	3,827,411,860	68,825	31,200,000	17,908,037	49,108,037	1.28%	713.52
2005	4,012,356,450	68,825	28,635,000	19,515,013	48,150,013	1.20%	699.60
2006	4,184,283,990	68,825	26,480,000	16,893,953	43,373,953	1.04%	630.21

(1) General bonded debt includes all direct bonded debt with the exception of Special Assessment and Michigan Transportation Bonds.

(2) Other general bonded debt includes County contractual obligations and capital lease.

City of Rochester Hills, Michigan

Debt Capacity Information Direct and Overlapping Governmental Activities Debt

Governmental Unit	Net General Bonded Debt Outstanding	City Share as Percent of Gross	Net City Share
Direct debt - City of Rochester Hills	\$ 26,480,000	100.00	\$ 26,480,000
Overlapping debt:			
Rochester School District	246,235,000	59.06	145,426,391
Avondale School District	100,624,066	50.13	50,442,844
Oakland County at Large	108,130,940	5.80	6,271,595
Oakland Community College	10,050,000	5.83	585,915
Oakland Intermediate School District	9,215,000	5.81	535,392
Total overlapping debt	474,255,006		203,262,136
Total	\$ 500,735,006		\$ 229,742,136

General bonded debt includes all direct bonded debt with the exception of Special Assessment and Michigan Transportation Bonds.

City of Rochester Hills, Michigan

	1997	1998	1999
Debt Limit			
State equalized valuation	\$ 2,313,679,500	\$ 2,542,175,950	\$ 2,770,396,400
Debt limit (10 percent of State equalized valuation)	10.00	10.00	10.00
 Total debt limit	 231,367,950	 254,217,595	 277,039,640
Debt Subject to Debt Limit			
Total debt	54,566,298	52,351,586	47,208,244
Less deduction:			
Special Assessment Bonds	4,515,000	4,095,000	3,675,000
Michigan Transportation Highway Fund Bonds	1,415,000	2,695,000	2,380,000
 Total amount of debt subject to limit	 48,636,298	 45,561,586	 41,153,244
 Legal Debt Margin	 \$ 182,731,652	 \$ 208,656,009	 \$ 235,886,396
 Net Debt Subject to Limit as Percentage of Debt Limit	 21.02%	 17.92%	 14.85%

Debt Capacity Information
Legal Debt Margin

2000	2001	2002	2003	2004	2005	2006
\$2,966,779,210	\$3,178,778,110	\$3,410,174,490	\$3,642,048,760	\$3,827,411,860	\$4,012,356,450	\$4,184,283,990
10.00	10.00	10.00	10.00	10.00	10.00	10.00
296,677,921	317,877,811	341,017,449	364,204,876	382,741,186	401,235,645	418,428,399
42,410,019	51,990,208	65,993,590	59,731,553	55,273,037	57,610,013	52,203,953
3,275,000	5,025,000	4,925,000	4,445,000	3,940,000	3,555,000	3,105,000
2,045,000	4,055,000	3,680,000	3,210,000	2,695,000	2,125,000	2,025,000
37,090,019	42,910,208	57,388,590	52,076,553	48,638,037	51,930,013	47,073,953
\$ 259,587,902	\$ 274,967,603	\$ 283,628,859	\$ 312,128,323	\$ 334,103,149	\$ 349,305,632	\$ 371,354,446
12.50%	13.50%	16.83%	14.30%	12.71%	12.94%	11.25%

City of Rochester Hills, Michigan

Water and Sewer Revenue							
Fiscal Year	Direct Operating			Debt Service			Coverage
	Gross Revenues	Expenses	Net Revenues	Principal	Interest		
1997	\$ 12,311,408	\$ 13,235,788	\$ (924,380)	\$ 2,622,014	\$ 911,099	\$	(1)
1998	13,865,140	15,509,926	(1,644,786)	2,729,223	751,170		(0.46)
1999	12,489,318	16,232,415	(3,743,097)	2,830,419	586,386		(0.16)
2000	10,716,670	15,821,937	(5,105,267)	2,084,039	480,081		(0.09)
2001	15,075,311	16,766,992	(1,691,681)	2,209,038	313,044		(0.19)
2002	18,992,904	19,243,358	(250,454)	2,384,069	172,155		(0.69)
2003	19,759,609	19,906,469	(146,860)	2,300,807	34,264		(0.23)
2004	21,321,916	19,676,120	1,645,796	-	-		-
2005	25,388,968	23,062,151	2,326,817	-	26,630		0.01
2006	26,112,945	22,710,087	3,402,858	100,000	131,115		0.04

Debt Capacity Information Pledged-revenue Coverage

Special Assessment Bonds			
Special Assessment Collections	Debt Service		Coverage
	Principal	Interest	
\$ 633,881	\$ 605,000	\$ 395,403	0.62
620,705	665,000	350,284	0.56
503,151	670,000	301,301	0.60
360,395	650,000	260,272	0.72
619,884	625,000	221,226	0.36
405,365	700,000	277,669	0.68
297,126	650,000	244,944	0.82
213,212	505,000	209,690	0.98
164,366	405,000	184,884	1.12
103,190	430,000	165,724	1.61

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

City of Rochester Hills, Michigan

Demographic and Economic Information Housing Profile

Fiscal Year	Population		Personal Income (in Thousands)	Per Capita Personal Income	Unemployment Rate	City Housing Profile Number of Units	
1997	66,365	(2)	(1)	(1)	2.5	26,920	(6)
1998	68,501	(3)	(1)	(1)	2.3	27,270	(6)
1999	70,400	(4)	(1)	(1)	2.2	27,368	(6)
2000	68,825	(5)	(1)	(1)	1.6	27,969	(6)
2001	68,825	(5)	(1)	(1)	2.5	28,191	(6)
2002	68,825	(5)	(1)	(1)	3.0	28,536	(6)
2003	68,825	(5)	(1)	(1)	3.2	28,723	(6)
2004	68,825	(5)	(1)	(1)	3.2	29,485	(6)
2005	68,825	(5)	(1)	(1)	3.3	29,590	(6)
2006	68,825	(5)	(1)	(1)	3.2	29,813	(6)

(1) Information not available

(2) Source: Oakland County Planning Division, SEMCOG Estimated Growth Population through 1995

(3) Source: Oakland County Planning Division, Estimated Growth Population through 1996

(4) Source: Oakland County Planning Division, SEMCOG Estimated Growth Population through 1999

(5) Source: U.S. Bureau of the Census

(6) Source: Rochester Hills Assessing Department

City of Rochester Hills, Michigan

Demographic and Economic Information Principal Employers

Rank	Principal Employers	2006 Employees	Percentage of Total	1997 Employees	Percentage of Total	1997 Rank
1	Rochester Community Schools	1,700	4.62%	(I)	(I)	(I)
2	Crittenton Hospital	1,520	4.13%	(I)	(I)	(I)
3	Fanuc Robotics America	1,000	2.72%	(I)	(I)	(I)
4	Webasto Sunroofs Inc.	660	1.79%	(I)	(I)	(I)
5	Dana Corp.	575	1.56%	(I)	(I)	(I)
6	Eagle Ottawa Leather Co.	500	1.36%	(I)	(I)	(I)
7	Lear Operations	400	1.09%	(I)	(I)	(I)
8	Wright & Filippis	363	0.99%	(I)	(I)	(I)
9	Energy Conversion Devices	324	0.88%	(I)	(I)	(I)
10	Universal Tube Inc.	260	0.71%	(I)	(I)	(I)

(I) Information not available

City of Rochester Hills, Michigan

Demographic and Economic Information Construction Activity

Fiscal Year	Total Building Permits	Total Construction Valuation
1997	1,048	\$ 90,442,390
1998	990	90,457,005
1999	958	81,147,080
2000	842	89,154,870
2001	759	106,582,700
2002	886	145,489,900
2003	1,058	130,369,246
2004	1,005	170,586,904
2005	780	118,058,400
2006	586	93,315,021

Source: City Building Department

City of Rochester Hills, Michigan

Demographic and Economic Information Miscellaneous Demographics

Population		Labor Characteristics	
2000 U.S. Census	68,825	Occupation	Number of Employees
1990 U.S. Census	61,766	Management, professional, and related	19,201
		Service	2,935
		Sales and office	9,226
		Farming, forestry, and fishing	26
		Construction, extraction, and maintenance	1,855
		Production, transportation, and material moving	2,801
		Total	36,044
Income Characteristics		Industry	
Household Income	Number of Households		
Less than \$10,000	823	Agriculture, forestry, fishing, hunting, and mining	25
\$10,000 - \$14,999	866	Construction	1,462
\$15,000 - \$24,999	1,679	Manufacturing	9,553
\$25,000 - \$34,999	1,751	Wholesale trade	1,424
\$35,000 - \$49,999	3,053	Retail trade	4,283
\$50,000 - \$74,999	5,025	Transportation, warehousing, and utilities	581
\$75,000 - \$99,999	4,251	Information	642
\$100,000 - \$149,999	5,086	Finance, insurance, real estate, rental, and leasing	2,296
\$150,000 or more	3,829	Professional, scientific, management, administrative, and waste management services	4,698
		Educational, health, and social services	7,150
		Arts, entertainment, recreation, accommodation, and food services	1,988
		Other professional and related services	1,257
		Public administration	685
		Total	36,044
Residential Characteristics			
Single Family	75.40%		
Multi Family	19.40%		
Mobile Homes	5.20%		
Age Statistics		Educational Characteristics	
Years	2000	Years of School Completed	Persons 25 and Over
Under 5	6.50%	Less than 9th grade	2.20%
5 to 19	21.60%	9th to 12th grade, no diploma	5.10%
20 to 24	4.50%	High school graduate	18.30%
25 to 44	30.10%	Some college, no degree	20.20%
45 to 64	26.60%	Associate's degree	6.90%
Over 64	10.70%	Bachelor's degree	28.30%
		Graduate or professional degree	18.90%

Source: U.S. Census Bureau (2000 Census)

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

City of Rochester Hills, Michigan

Operating Information Full-time Equivalent Government Employees

Function/Program	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General government:										
Mayor	13	13	15	15	13	13	12	12	11	10
Election and clerks	10	13	11	9	9	6	8	8	8	9
Accounting	7	7	7	8	9	9	9	10	9	9
Assessing	12	11	12	12	11	12	11	11	11	10
Human resources	3	5	5	7	6	5	5	5	5	4
Treasury	6	6	6	5	5	5	5	4	3	3
Planning and zoning	5	7	8	7	8	6	7	8	8	7
Parks and recreation	15	15	14	18	17	22	21	19	19	17
Management information systems	4	4	4	6	6	7	7	7	7	8
Cemetery	1	1	1	1	1	2	2	2	2	2
Public safety:										
Police services (contracted officers)	49	50	54	54	56	58	58	58	58	59
Fire, EMS, and dispatch	17	21	23	28	36	42	42	43	45	48
Building	15	18	20	21	21	17	18	17	20	18
Ordinance enforcement	4	4	4	4	4	7	7	7	7	7
Public works:										
Department of public service	67	72	71	66	65	74	72	69	68	64
Forestry	4	4	5	5	5	5	5	5	5	5
Fleet	4	6	6	6	6	8	8	8	7	7
Facilities	10	10	9	9	9	8	8	8	7	7
Total	<u>246</u>	<u>267</u>	<u>275</u>	<u>275</u>	<u>287</u>	<u>306</u>	<u>305</u>	<u>301</u>	<u>300</u>	<u>294</u>

City of Rochester Hills, Michigan

Function/Program	1997	1998	1999	2000	2001
Election:					
Number of elections	3	3	2	3	1
Registered voters	49,071	50,591	49,974	48,728	47,941
New registrations	4,737	4,707	4,254	2,901	(1)
Building:					
Permits issued	5,037	4,543	4,440	3,837	3,691
Inspections	15,187	14,987	13,813	10,360	8,970
Parks and recreation:					
Park attendance (estimate)	504,203	471,256	474,749	505,341	574,724
Museum attendance (estimate)	15,290	15,384	13,942	15,924	16,746
Education center attendance (estimate)	4,352	4,129	4,897	4,864	5,741
Forestry - Tree inventory	18,624	18,698	19,097	19,136	19,387
Major roads:					
Winter material applied - Salt (in tons)	2,646	1,229	2,445	2,903	1,422
Other material applied to major roads (in tons)	788	789	497	565	1,178
Linear feet of ditches cleaned - Major roads	(1)	(1)	(1)	(1)	(1)
Local roads:					
Pothole repair - Solvex applied (in tons)	(1)	130	53	105	154
Other material applied to local roads (in tons)	5,389	17,582	5,717	9,985	8,237
Winter material applied (in tons)	2,286	1,264	1,832	2,498	1,536
Fire:					
Fire inspections/reviews/investigations	874	686	1,501	1,207	919
Emergency calls received	10,928	11,807	13,535	14,273	11,981
Nonemergency calls received - Direct line	(1)	(1)	(1)	24,686	22,063
Number of fires	155	189	166	157	202
Number of rescues	2,033	2,006	2,199	2,210	2,255
Number of community education programs	207	337	287	208	205
Number of participants in education programs	5,204	8,222	5,934	3,950	3,411
Police (contracted services) - Dispatched calls for service	30,708	31,422	32,480	31,322	31,153
Patrol investigators:					
Criminal activity - New cases	764	756	630	681	641
Criminal activity - Recovered property	\$ 7,018	(1) \$	30,534	(1) \$	48,451
Uniformed patrol:					
Criminal activity - New cases	720	660	740	806	1,015
Criminal activity - Recovered property (\$)	\$ 3,542	\$ 5,152	(1)	(1) \$	281,544
Crime statistics:					
Part A crimes	(1)	(1)	(1)	2,857	2,832
Part B crimes	(1)	(1)	(1)	1,030	1,253
Part C crimes (Miscellaneous)	(1)	(1)	(1)	25,769	25,281
Water and sewer:					
Water and sewer utility billings (2)	263,044	264,686	265,197	271,810	263,993
Water sales (million cubic feet)	387	462	440	386	436
Meter reads	(1)	(1)	(1)	(1)	189,630
Meter installations	836	1,037	1,972	1,675	2,219
Water purchased (million cubic feet)	405	461	480	422	423

Source: City departments

(1) Information not available

(2) Effective January 1, 2004, billings cycle changed from monthly to bimonthly

Operating Information

Operating Indicators by Function

2002	2003	2004	2005	2006
2	2	2	3	3
47,148	46,817	47,932	47,289	46,929
4,847	(1)	7,039	4,237	4,886
4,124	4,880	5,456	4,674	3,894
9,164	14,152	13,646	12,163	10,784
670,088	817,624	796,260	902,626	895,671
21,817	20,655	21,621	22,153	17,163
5,217	4,350	5,284	4,431	4,560
19,453	19,325	19,906	19,362	19,283
1,961	2,537	2,376	2,770	1,118
644	198	109	112	88
3,345	1,014	1,214	0	888
58	72	142	113	60
4,422	4,860	2,430	2,192	3,417
1,780	2,081	1,892	1,683	648
819	651	1,305	1,281	1,792
11,832	11,917	11,215	11,052	10,634
21,280	26,172	25,708	23,811	21,556
189	162	148	134	136
2,294	2,618	2,752	2,819	3,014
448	444	415	353	426
8,193	1,105	12,399	8,624	12,324
27,443	29,176	28,377	28,535	(1)
557	492	579	683	(1)
\$ 13,339	\$ 34,850	\$ 81,026	\$ 51,709	(1)
835	1,005	1,050	1,008	(1)
\$ 163,044	\$ 230,860	\$ 162,096	\$ 90,293	(1)
2,276	2,308	2,434	2,926	(1)
1,458	1,326	1,383	1,253	(1)
22,017	24,602	23,572	23,843	(1)
260,647	240,070	132,444	136,749	138,081
437	418	429	428	389
181,837	180,451	173,362	175,490	176,378
3,393	3,544	2,717	1,772	1,660
424	424	405	464	434

City of Rochester Hills, Michigan

Function/Program	1997	1998	1999	2000	2001
General government:					
Buildings - City Hall	1	1	1	1	1
Cemetery	1	1	1	1	1
Acreage	16.8	16.8	16.8	16.8	16.8
Public safety:					
Police station	1	1	1	1	1
Fire:					
Stations	5	5	5	5	5
Fire response vehicles	4	4	4	4	4
Emergency response vehicles	3	3	3	3	7
Public works:					
Buildings	1	1	1	1	1
Streets (miles):					
Miles of major roads	34.87	35.93	35.93	35.93	35.93
Miles of local roads	199.07	198.48	199.52	201.70	201.70
Water:					
Mains (miles)	390.25	393.91	399.17	402.31	408.72
Gate valves	4,970	4,975	4,996	4,999	5,032
Hydrants	4,546	4,557	4,571	4,573	4,586
Sewer:					
Miles of sanitary sewers	293.67	298.37	299.01	299.77	303.78
Miles of storm sewers	43.37	43.84	49.60	49.82	50.78
Manholes - Sanitary	6,941	7,089	7,107	7,138	7,247
Manholes - Storm	538	552	765	765	781
Inlets (Valves and catch basins)	3,916	3,974	4,129	4,141	4,231
Parks and recreation:					
Major/Community parks:					
Buildings	14	14	14	14	14
Acreage	580.7	580.7	580.7	580.7	580.7
Developed parks/playgrounds	5	5	5	5	5
Developed fields (soccer, baseball, etc.)	14	14	14	14	17
Neighborhood parks:					
Acreage	23.6	23.6	23.6	23.6	23.6
Developed parks/playgrounds	2	2	2	2	2
Developed fields (soccer, baseball, etc.)	3	3	3	3	3
Special use parks:					
Buildings	9	9	9	9	9
Acreage	308.64	308.64	308.64	308.64	308.64
Museums	1	1	1	1	1
Education centers	1	1	1	1	1
Golf courses	1	1	1	1	1
Veteran's Memorial Pointe	1	1	1	1	1
Total park acreage	912.94	912.94	912.94	912.94	912.94
Number of parks	11	11	11	11	11

Operating Information Capital Asset Statistics

2002	2003	2004	2005	2006
16.8	16.8	16.8	16.8	16.8
5	5	5	5	5
4	8	8	10	10
7	7	7	8	8
36.66	36.66	36.66	37.62	37.56
204.11	204.11	206.50	211.52	215.55
417.70	425.34	429.88	434.32	439.24
5,066	5,117	5,135	5,206	5,315
4,617	4,668	4,699	4,772	4,821
306.87	312.10	317.29	321.47	322.50
52.75	53.43	53.67	54.00	54.80
7,356	7,462	7,630	7,726	7,754
804	811	814	822	822
4,427	4,475	4,532	4,572	4,599
14	15	16	16	16
580.7	580.7	580.7	590.7	590.7
5	5	5	5	5
17	17	17	17	17
23.6	23.6	23.6	23.6	23.6
2	2	2	2	2
3	3	3	3	3
9	9	10	10	10
308.64	308.64	308.64	308.64	308.64
912.94	912.94	912.94	922.94	922.94
11	11	11	11	11

City of Rochester Hills, Michigan

Operating Information State-shared Revenue and Gas and Weight Tax

State-shared Revenue

Fiscal Year Ended December 31	Modified Accrual Basis of Accounting	Accrual Basis of Accounting
1997	\$ 5,005,533	N/A
1998	5,270,766	N/A
1999	5,447,282	N/A
2000	5,984,275	N/A
2001	6,541,567	N/A
2002	6,259,299	\$ 6,190,712
2003	5,863,048	5,712,210
2004	5,420,684	5,443,641
2005	5,474,685	5,395,634
2006	5,375,537	5,341,983

Gas and Weight Taxes

Fiscal Year Ended December 31	Type of Street		Total Gas and Weight Tax (Act 51) Receipts
	Major Roads	Local Roads	
1997	\$ 2,330,165	\$ 833,465	\$ 3,163,630
1998	2,585,346	993,366	3,578,712
1999	2,606,715	999,811	3,606,526
2000	2,724,209	1,049,759	3,773,968
2001	2,848,175	1,087,766	3,935,941
2002	2,975,980	1,116,276	4,092,256
2003	3,007,318	1,168,414	4,175,732
2004	3,254,785	1,228,947	4,483,732
2005	3,114,289	1,183,035	4,297,324
2006	3,100,240	1,185,402	4,285,642

City of Rochester Hills, Michigan

**Federal Awards
Supplemental Information
December 31, 2006**

City of Rochester Hills, Michigan

Contents

Independent Auditor's Report	I
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	2-3
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	4-5
Schedule of Expenditures of Federal Awards	6
Note to Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs	8-10



Plante & Moran, PLLC

Suite 1A

111 E. Court St.

Flint, MI 48502

Tel: 810.767.5350

Fax: 810.767.8150

plantemoran.com

To the Honorable Mayor and
Members of the City Council
City of Rochester Hills, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Rochester Hills as of and for the year ended December 31, 2006, which collectively comprise the City of Rochester Hills' basic financial statements, and have issued our report thereon dated April 13, 2007. Those basic financial statements are the responsibility of the management of the City of Rochester Hills. Our responsibility was to express opinions on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rochester Hills' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

April 13, 2007



Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council
City of Rochester Hills, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Rochester Hills as of and for the year ended December 31, 2006, which collectively comprise the City of Rochester Hills' basic financial statements, and have issued our report thereon dated April 13, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Rochester Hills' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Rochester Hills' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Rochester Hills' internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the control deficiency described in the accompanying schedule of findings and questioned costs as item 2006-01 to be a significant deficiency in internal control over financial reporting.

To the Honorable Mayor and
Members of the City Council
City of Rochester Hills, Michigan

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies, and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Rochester Hills' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of Rochester Hills' response to the significant deficiency and finding related to internal control over financial reporting identified in our audit and described in the accompanying schedule of findings and questioned costs has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, Older Persons' Commission members, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

April 13, 2007



Report on Compliance with Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and
Member of the City Council
City of Rochester Hills, Michigan

Compliance

We have audited the compliance of the City of Rochester Hills with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2006. The major federal programs of the City of Rochester Hills are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Rochester Hills' management. Our responsibility is to express an opinion on the City of Rochester Hills' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Rochester Hills' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Rochester Hills' compliance with those requirements.

In our opinion, the City of Rochester Hills complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

To the Honorable Mayor and
Members of the City Council
City of Rochester Hills, Michigan

Internal Control Over Compliance

The management of the City of Rochester Hills is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Rochester Hills' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement for a major program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a major federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement for a major program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that noncompliance that is material to a type of compliance requirement for a major program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance and its operation that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of City Council, Older Persons' Commission members, management, federal awarding agencies, and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

April 13, 2007

City of Rochester Hills, Michigan

Schedule of Expenditures of Federal Awards Year Ended December 31, 2006

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
Clusters:				
Community Development Block Grant - Entitlement and Small Cities Cluster - U.S. Department of Housing and Urban Development - Passed through Oakland County Department of Community Development - Entitlement Grant:	14.218			
Program year 2004-2005 #802261-60010		-	\$ 176,567	\$ 36,931
Program year 2005-2006 #802261-60010		-	167,024	92,746
Program year 2006-2007 #802261-60010		-	150,322	54,795
Total Community Development Block Grant Cluster				184,472
Highway Planning and Construction Cluster - U.S. Department of Transportation - Highway Planning and Construction - Passed through Michigan Department of Transportation - Federal Award (FAUS)	20.205	STP1993(001) HJ0900	682,000	2,216
Aging Cluster - U.S. Department of Health and Human Services - Passed through the Area Agency on Aging to the Older Persons' Commission:				
Special Programs for the Aging - Title III, Part C - Nutrition Services:	93.045			
2005-2006		06-9059-03	195,071	144,844
2006-2007		07-9059-03	204,539	51,156
Program Income		-		141,990
Total Nutrition Services				337,990
Nutrition Services Incentive Program:	93.053			
2005-2006		06-9059-03	84,790	71,464
2006-2007		07-9059-03	79,354	19,252
Total Nutrition Services Incentive Program				90,716
Total Aging Cluster				428,706
Medicaid Cluster - U.S. Department of Health and Human Services - Passed through the Area Agency on Aging to the Older Persons' Commission - Medicaid Assistance Program (Medicaid) - Home Delivered Meals	93.778	-	7,314	7,314
Homeland Security Cluster - U.S. Department of Homeland Security - Passed through the Michigan Department of State Police - Homeland Security Grant Program	97.067	2005 HSGP	4,862	4,862
Total federal awards				<u>\$ 627,570</u>

City of Rochester Hills, Michigan

Note to Schedule of Expenditures of Federal Awards Year Ended December 31, 2006

Note - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Rochester Hills and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

City of Rochester Hills, Michigan

Note to Schedule of Expenditures of Federal Awards Year Ended December 31, 2006

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes _____ None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major program(s):

CFDA Number(s)	Name of Federal Program or Cluster
93.045, 93.053	Aging Cluster

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes _____ No

City of Rochester Hills, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended December 31, 2006

Section II - Financial Statement Audit Findings

Reference Number	Findings
2006-1	<p>Finding Type - Significant deficiency</p> <p>Definition of Significant Deficiency - This is a new communication for calendar year 2006 audits. As defined on page 2 of this report, auditors now communicate any internal control deficiency that represents more than a remote likelihood that a misstatement could occur that is more than inconsequential.</p> <p>Criteria - Management's goal is to adequately communicate significant transactions between the operating functions and the recordkeeping functions, so that recordkeeping can be complete and accurate.</p> <p>Condition - Certain transactions that were outside the normal course of business had an impact on the City's financial reporting; these were not included in the preliminary accounting records at the initiation of the audit process. After discussion with management, these transactions are now appropriately recorded in the records.</p> <p>Cause - Certain transactions were outside the normal course of business and, therefore, a systematic approach did not exist to communicate them to the appropriate recordkeeping personnel.</p> <p>Effect - As a result, those transactions were not originally recorded in the accounting records, prior to beginning the audit process. Specifically, liabilities related to a court settlement and open labor contract were not communicated and reported in the accounting records.</p> <p>Views of Responsible Officials - Management has put an internal procedure in place that will provide the accounting recordkeepers the proper notification to record accounting transactions in a complete and timely manner. The updated procedure will allow management to identify situations that are unusual and extraordinary as well as transactions that may be routine in nature. All financial transactions are accurately recorded for the period ended December 31, 2006.</p>

City of Rochester Hills, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended December 31, 2006

Section III - Federal Program Audit Findings

None

April 13, 2007

To the Honorable Mayor and
Members of the City Council
City of Rochester Hills
1000 Rochester Hills Drive
Rochester Hills, MI 48309-3033

Dear Mayor and Council Members:

We recently completed our audit of the basic financial statements of the City of Rochester Hills (the "City") for the year ended December 31, 2006. As a result of our audit, we have the following comments and recommendations for your review and consideration.

State-shared Revenue

As discussed in our previous communications, the future of the State's revenue-sharing program may be directly tied to the condition of the State's budget. Reductions to statutory revenue sharing started in 2001 as shortfalls began occurring in the State's budget, which continue to be significant. The magnitude of the State's deficit has become even more pronounced after the State's January 2007 revenue-estimating conference. According to economists, Michigan's budget is \$3 billion short of the revenue needed to cover basic services this year and next (State fiscal years 2006/2007 and 2007/2008). In addition, the outcome of other matters will also impact revenue sharing, as follows:

- **Future of County Participation in Statutory Revenue Sharing** - In 2004, the State terminated payment of statutory revenue sharing to counties (which was approximately \$182 million) but allowed counties to move their operating tax levy to July from December. Counties are required to deposit the additional monies from the earlier levy into a "reserve fund," which is to be used by the counties to replace lost statutory revenue sharing in future years. The question that remains is when the reserve funds established by counties are depleted, will counties come back into the "revenue-sharing formula" and to what extent? Will the size of the statutory pot grow to accommodate counties or will there be a shift of the same monies from cities, villages, and townships to the counties?
- **Statutory Revenue-sharing Formula Expires in 2007** - Legislative action would be required for appropriations to continue into 2008 and beyond. In 2006, the City's statutory revenue was approximately \$675,000 (of the total \$5,475,000 distribution received).

- **Changing Michigan Business Tax Structure** - The Michigan single business tax has been eliminated effective December 31, 2007, which will result in the loss of \$1.9 billion from the State's budget in 2008. The governor's fiscal year 2007/2008 budget recommends replacing a majority of the repealed single business tax revenue with a new Michigan Business Tax and the enactment of a new excise tax on service providers. The new Michigan Business Tax (MBT) is projected to generate approximately \$480 million less annually in revenue than currently generated by the single business tax, but the new 2 percent excise tax on most services is projected (if effective on June 1, 2007) to raise about \$576 million in the remainder of the fiscal year 2006/2007 to help with State's budget deficit for that year and to raise \$1.47 billion in the State's fiscal year 2007/2008. The governor's budget also includes several other tax increases and changes. Much debate will occur prior to the enactment of a final tax structure plan.

As introduced, the governor's budget for fiscal year 2007/2008 includes a revenue-sharing increase of \$27 million to be distributed using the three-part formula currently contained in the revenue-sharing act (taxable value per capita, population/unit type, and yield equalization) with an additional \$14.5 million for public safety funding. While specific details have not been announced yet, communities would only be eligible for the increase if they can demonstrate service sharing with other local governments.

While the debate has begun, there still remain considerably more questions than answers regarding long-term funding of statutory revenue sharing. Additionally, there are several practical short-term concerns including:

- If revenue-sharing cuts are enacted for the State's fiscal year 2006/2007, then these unplanned revenue-sharing payment reductions could impact the City's year ending December 31, 2007. However, the amounts may not be known until summer, providing local governments with little or no time to react.
- Final decisions on revenue-sharing funding levels for the State's fiscal year 2007/2008 will likely not be complete in time for local governments working on 2008 budgets.

Property Tax Legislation

A series of House bills have been introduced in 2007 dealing with the treatment of the uncapping of value on sale or transfer of property. With the passage of Proposal A in 1994, changes to the taxable value of an individual property are limited to the lesser of the rate of inflation, or 5 percent, until the property is sold or transferred. The difference between the capped taxable value amount and state equalized value at the time of transfer is referred as the "uncapped" value or the "pop-up" value. As several published studies and reports have demonstrated, the treatment of "uncapped" values or the "pop-up" amount when a property is transferred or sold as growth on existing property subject to the Headlee rollback calculation has resulted in continued downward pressure on millage rates. This treatment is due to definitional changes made to the General Property Tax Act in 1994.

The three bills in the package are House Bills 4440, 4441, and 4442 and would propose to do the following:

- House Bill 4440 establishes an 18-month moratorium on the “pop-up” or “uncapping” of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the time frame of the moratorium would continue to pay property taxes at the previous taxable value amount. The “pop-up” or “uncapping” of taxable value would be delayed until the property was sold or transferred in later years.
- House Bill 4441 increases the real estate transfer tax by .10 percent and earmarks the money to be returned to local governments for potential loss in revenue occurring from House Bill 4440.
- House Bill 4442 would change the General Property Tax Act to exempt the “pop-up” or “uncapped” value from the Headlee rollback calculation. If this legislation were enacted, increases in taxable value resulting from property sales or transfers would be treated as “additions” to taxable value or new growth versus growth on existing property.

House Bills 4440 and 4441 passed the House on March 14 (HB 4440 has been assigned to the Senate finance committee). House Bill 4442 has not been voted on yet in the House. The bills are not tie barred.

New Cable Franchise Legislation

The governor signed cable franchise legislation into law effective on January 1, 2007 with House Bill 6456. The new law, Public Act 480 of 2006, creates the Uniform Video Services Local Franchise Act, which provides a statewide framework for franchising agreements instead of individual community agreements. This Act requires video service providers to obtain a local franchise from the franchising entity (the local unit of government), which will be good for 10 years. As part of the local franchise, the provider is required to pay an annual video service provider fee not to exceed 5 percent of gross revenue, as well as an annual fee for the costs of the PEG access facilities, not to exceed 2 percent of gross revenue. The Act allows providers to terminate the current franchise contracts before their expiration date in order to enter into this new local franchise agreement under the statewide framework.

It is expected that local governments will receive their first payment under the new Act beginning in May 2007. We strongly encourage you to review this payment compared to payments previously received and follow up with your provider as appropriate.

In addition to the comments and recommendations in this letter, our observations and comments regarding the City's internal controls, including any significant deficiencies or material weaknesses that we identified, have been reported to you in the accompanying *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*. This report is included in the supplementary schedule of federal financial assistance (the single audit report); management has evaluated these matters and documented their action plan within the report.

To the Honorable Mayor and
Members of the City Council
City of Rochester Hills

4

April 13, 2007

We would like to thank the City for the continued opportunity to serve as your auditor and for the assistance and cooperation that we received from the accounting staff and the rest of the City personnel during the audit. We would be happy to answer any questions or concerns you have regarding the annual report and the above comments and recommendations at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in cursive script that reads "Joseph C. Heffernan".

Joseph C. Heffernan

A handwritten signature in cursive script that reads "Lisa C. Manetta".

Lisa C. Manetta